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GABON

July 2017

REQUEST FOR AN EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR GABON

In the context of the Request for an Extended Arrangement Under the Extended Fund Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 19, 2017 following discussions that ended on April 7, 2017 with the officials of Gabon on economic developments and policies underpinning the IMF arrangement under the Extended Fund Facility. Based on information available at the time of these discussions, the staff report was completed on June 5, 2017.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Gabon.

The documents listed below have been or will be separately released:

Letter of Intent sent to the IMF by the authorities of Gabon*
Memorandum of Economic and Financial Policies by the authorities of Gabon*
Technical Memorandum of Understanding*
*Also included in Staff Report

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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Press Release No. 17/233
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June 20, 2017

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Washington, D.C. 20431 USA

IMF Executive Board Approves US$642 Million Extended Arrangement Under the Extended Fund Facility (EFF) for Gabon

- The program will help Gabon ensure macroeconomic stability and lay the basis for sustainable and equitable growth.
- The three-year extended arrangement will help anchor prudent fiscal policies and a sustainable balance of payments position.
- Fiscal consolidation will help ensure debt sustainability and support the stabilization of the regional international reserve pool.

On June 19, 2017, the International Monetary Fund (IMF) approved a three-year extended arrangement under the Extended Fund Facility (EFF) for Gabon for SDR 464.4 million (about US$642 million), or 215 percent of Gabon's quota, in support of the authorities' medium-term recovery program.

The EFF-supported program will help Gabon ensure macroeconomic stability and lay the basis for sustainable and equitable growth. It seeks to attain debt sustainability at the national level and help contribute to restoring and preserving external stability for the Central African Economic and Monetary Union (CEMAC).

Today's Executive Board's decision enables an immediate disbursement of SDR71.43 million, about US$ 98.8 million. The remaining amount will be phased over the duration of the program, subject to semi-annual reviews.

Following the Executive Board discussion on Gabon, Mr. Mitsuhiro Furusawa, Deputy Managing Director and Acting Chair stated:

"Gabon is facing significant macroeconomic challenges due to a sharp decline in oil prices. Growth has declined, fiscal and external buffers have diminished, and public debt levels have increased. The authorities' Fund-supported economic program appropriately focuses on addressing these large fiscal and external imbalances, as well as structural fiscal reforms to improve the efficiency and transparency of public spending, and policies to enhance financial sector stability and economic diversification.

“The three-year extended arrangement under the Extended Fund Facility will help anchor prudent fiscal policies and a sustainable balance of payments position. While downside risks in the short term are high, the authorities have presented an adequate policy package to manage risks. Over the medium term, the economic outlook remains positive, provided policies envisaged under the Fund-supported arrangement are rigorously implemented.

“Fiscal consolidation will help ensure debt sustainability and support the stabilization of the regional international reserve pool. The authorities’ plan to contain current spending, while protecting critical social programs, and pursue non-oil revenue mobilization efforts through improvements in tax administration and streamlining of tax exemptions. Prudent financial management will help improve the efficiency and transparency of public spending, especially to prevent recurring problems of extra budgetary spending and arrears accumulation. Efforts to improve oil revenue management are also expected to play an important role.

“Safeguarding financial sector stability and promoting financial inclusion will ensure that the financial sector supports economic objectives. An expeditious resolution of the three distressed public banks and strengthening of the supervisory framework for commercial banks would also support financial intermediation and contribute to private-sector led economic growth.

“Further improvements to the business climate—particularly in the areas of starting a business, dealing with construction permits, registering property, paying taxes and enforcing contracts—would help diversify the economy. Improvements in the production and dissemination of economic statistics are also needed.

“The success of Gabon’s program will also depend on the implementation of supportive policies and reforms by the regional institutions.”

Annex

Recent Economic Developments

Since mid-2014, the decline in oil prices has generated large drops in oil exports and fiscal revenues. Within this context, Gabon's economy is facing three crucial macroeconomic challenges, including slowing growth, rising public debt levels, and insufficient fiscal and external buffers. The decline in economic activity continued in 2016, with 2.1 percent growth, down from 3.9 percent in 2015. Despite substantial fiscal adjustment since 2014, the overall fiscal position has deteriorated substantially. Additionally, the rising deficit in the overall fiscal balance has increased financial needs, which has given rise to large domestic bank financing and the accumulation of arrears. The current account deficit widened sharply in 2016, moving to a deficit of over 10 percent of GDP, from an average surplus of about 14 percent of GDP over 2010-14 period. Average inflation has picked up to 2 percent in 2016, but remains within the CEMAC convergence criterion.

The medium-term economic outlook remains favorable, provided prudent policies are implemented as planned. Growth can return to previous levels of 4-5 percent, supported by the authorities' ongoing diversification strategy. Large scale investments in agriculture and logistics are projected to develop a competitive advantage in agri-business as well as unlock downstream activity in other non-oil commodity sectors. Gabon's diversification strategy around these projects could help boost competitiveness and productivity and help restore external stability over time.

Program Summary

The three-year EFF-supported program builds on the strategy set out by the CEMAC heads of state at their December 2016 summit in Yaoundé. Recognizing the potentially serious economic and political disruptions that could result from a change in the exchange rate regime, they agreed on a strategy based on maintaining the current peg, while putting in place substantial fiscal adjustments in each country, all supported by tightening monetary policy at the regional level. In that context, Gabon's EFF-supported program will buttress the broad objectives of the country's economic recovery program. The EFF-supported program is built on three key pillars: well-balanced fiscal consolidation that minimizes the impact on growth and protects vulnerable groups; structural reforms to improve the efficiency and transparency of public spending; and policies to enhance financial sector stability and economic diversification.

As part of the IMF-supported program, the authorities are committed to protecting social sector expenditure and to redirecting a portion of the budget resources to those sectors. The main objective is to ensure that expenditure in priority sectors—healthcare, education, and social protection—continues to promote the development of human capital, and protects the most vulnerable groups from the impact of the required fiscal adjustment.

The program's fiscal policy aims at reducing the overall deficit (on a cash basis) to 4.6 percent of GDP in 2017 from 6.6 percent in 2016; and the non-oil primary deficit to 8.9 percent of non-oil GDP from 11 percent. Additionally, the government is taking steps to improve non-oil revenue mobilization, boost tax compliance and combat tax evasion; modernize tax filing and payment procedures; broaden the tax base through the reduction of special tax regimes and exemptions, particularly on VAT; and create a revenue authority.

A strategy for the full repayment of arrears will also be implemented over the EFF-supported program period and the government will accelerate public finance management reforms , including toward implementing CEMAC directives, improving budget transparency and public investment management as well as strengthening of the financial oversight of public companies and government agencies.

Background

Gabon, which became a member of the IMF on September 10, 1963, has an IMF quota of SDR 216 million.

For additional information on the IMF and Gabon, see:
http://www.imf.org/external/country/GAB/index.htm

GABON

June 5, 2017

REQUEST FOR AN EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY

EXECUTIVE SUMMARY

Context. Gabon is the second largest economy in the Central African Economic and Monetary Union (CEMAC). Since mid-2014, the decline in oil prices has generated a sharp slowdown in economic activity, large drops in oil exports and fiscal revenues, and widening fiscal and current account deficits. The Gabonese authorities are requesting a three-year, extended arrangement under the Extended Fund Facility (EFF) in an amount equivalent to SDR 464.400 million, corresponding to 215 percent of Gabon's quota at the Fund.

Program Objectives. The main goal of the program is to ensure macroeconomic stability and lay the basis for sustainable and equitable growth. To this end, the program seeks to ensure debt sustainability at the national level and help restore and preserve external stability at the regional level. It is built upon three pillars: (i) well-balanced fiscal consolidation that minimizes the impact on growth and protects vulnerable groups; (ii) structural fiscal reforms to improve the efficiency and transparency of public spending; and (iii) policies to enhance financial sector stability and economic diversification.

Program policies. The government is targeting fiscal adjustment of about 2 percent of GDP in 2017. Fiscal consolidation will help ensure debt sustainability and support the stabilization of the regional international reserve pool. Improvements in public finance management, especially to prevent recurring problems of extra budgetary spending and arrears accumulation, are needed to mitigate fiscal risks. Financial sector policies focus on containing risks from distressed public banks and non-performing loans, while reforms of the business environment focus on attracting investment to new strategic sectors to build resilience to shocks.

Staff views. Staff supports the authorities' request for an extended arrangement under the EFF. The Letter of Intent and Memorandum of Economic and Financial Policies provide an appropriate basis to pursue the program objectives. With robust contingency measures in place, risks to the program are manageable if the government takes decisive action to front-load implementation of key policies and ensures intensive monitoring of program commitments.

Approved By
Anne-Marie Gulde-Wolf (AFR) and Yan Sun (SPR)

Discussions were held in Washington, DC during January 26–27, in Libreville during February 14–28, and in Washington, DC during March 29–April 7. The staff team comprised Mr. Segura-Ubiergo (head), Ms. Suc (FAD), and Messrs. Nassar, Orav, Rosa (all AFR), Dupont (MCM), and Meyer-Cirkel (SPR). The mission held discussions with H.E. Mr. Emmanuel Issoze-Ngondet, Prime Minister; Mr. Régis Immongault, Minister of Sustainable Development, Economy, Investment Promotion and Economic Forecasting; Mr. Mathias Otounga Ossibadjouo Minister of Budget and Public Accounts; Mr. Denis Meporewa, National Director of the Central Bank of Central African States; and other senior government officials. The mission also exchanged views with representatives of the private sector, civil society, and development partners.

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Abbreviations and Acronyms

AFD	French Development Agency
AfDB	African Development Bank
ANGTI	National Agency for Major Infrastructure Projects
ANPI	National Agency for Investment Promotion
BEAC	Central Bank of Central Africa States
BOP	Balance of Payments
CA	Current Account
CEMAC	Central African Economic and Monetary Union
CFAF	Local Currency (African Financial Community Francs)
CG	Central Government
CICMHZ	China's Huanzhou Industrial and Commercial Industries
COBAC	Central African Banking Commission
COMILOG	Ogooué Mining Company (*Compagnie Minière de l'Ogooué*)
CSR	Corporate Social Responsibility
DGE	General Directorate of the Economy
DMP	Directorate of Public Procurement (*Direction des Marchés Publics*)
DMU	Debt Management Unit
DSA	Debt Sustainability Analysis
EBA	External Balance Assessment
EFF	Extended Fund Facility
EITI	Extractive Industries Transparency Initiative
ESA	External Sustainability Assessment
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FGIS	Gabonese Strategic Investment Fund
HCI	High-Level Council for Investment
GDP	Gross Domestic Product
GRAINE	Smallholder-Based Agriculture Program
IT	Indicative Target
IFIs	International Financial Institutions
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
LIA	Lending into Arrears
LOI	Letter of Intent
LOLFEB	Organic Law on Budget Laws and Budget Execution
MEFP	Memorandum of Economic and Financial Policies
NGOs	Non-Governmental Organizations
NOPB	Non-Oil Primary Balance
NPLs	Non-Performing Loans
NPV	Net Present Value

OECD	Organization for Economic Co-operation and Development
PA	Prior Action
PCs	Performance Criteria
PEFA	Public Expenditure and Financial Accountability Assessment
PFM	Public Financial Management
PIH	Permanent Income Hypothesis
PPPs	Public-Private Partnerships
PRE	Economic Recovery Plan
PSGE	Strategic Plan for Emerging Gabon (*Plan Stratégique Gabon Emergent*)
QPC	Quantitative Performance Criteria
REER	Real Effective Exchange Rate
RGCP	General Government Accounting Regulation
RGSM	Regional Government Securities Market
SB	Structural Benchmark
SEZ	Special Economic Zones
SOEs	State-Owned Enterprises
SOTRADER	Gabon Agriculture Company (*Société Gabonaise de Transformation Agricole*)
TMU	Technical Memorandum of Understanding
TOFE	Table of Government Financial Operations
VAT	Value-Added Tax
WB	The World Bank
WEO	World Economic Outlook

CONTEXT

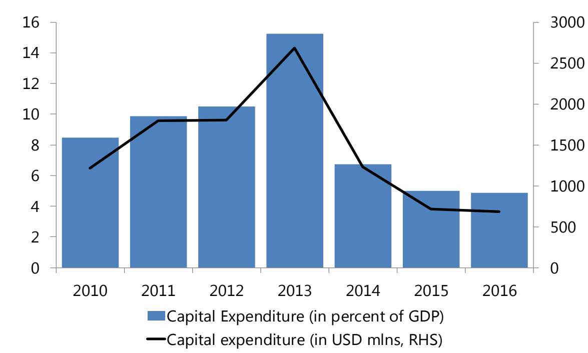
1. **In the context of a rapidly deteriorating economic outlook, member countries of the Central African Economic and Monetary Union (CEMAC) have requested Fund assistance**. The Gabonese authorities are requesting a three-year, extended arrangement under the Extended Fund Facility (EFF) in an amount equivalent to SDR 464.400 million, corresponding to 215 percent of Gabon's quota at the Fund. In recent months, Gabon has been one of the most active members of the union, preparing an Economic Recovery Plan (*Programme de Relance Economique*), seeking Fund assistance to find the right balance between financing and adjustment, and helping advance the dialogue with other member countries and regional institutions on the need to act quickly, and in a coordinated manner, to avert a crisis. Gabon's Fund-supported program is consistent with the coordinated response of CEMAC member countries, and the policy commitments outlined in the regional report.[1]

2. **Since mid-2014, the decline in oil prices has generated large drops in oil exports and fiscal revenues**. This has led to widening fiscal and current account deficits and a fast accumulation of domestic and external arrears. The authorities have started taking corrective measures to avert a crisis. The proposed Fund-supported program would help preserve external stability in the country and at the regional level, and ensure debt sustainability at the national level. It is built upon three pillars: (i) fiscal consolidation, (ii) structural fiscal reforms, and (iii) measures to enhance financial stability and promote economic diversification.

3. **Within this context, Gabon's economy is facing three major macroeconomic challenges that require decisive action in the short term**.

- *Decelerating Growth*. GDP growth has declined from an average of 6 percent over the 2010–13 period prior to the shock to 3½ percent over 2014–16, with growth expected to decelerate further to 1 percent in 2017. Three factors explain the decline in economic performance. First, historically, Gabon's economy has been driven by its large oil sector, but production is in decline. Oil output is falling due to maturing fields and the impact of weak international energy prices on new investment. Second, the decline in oil prices has constrained government revenue and thus spending (especially

Text Figure 1. Gabon: Public Investment, 2010-16



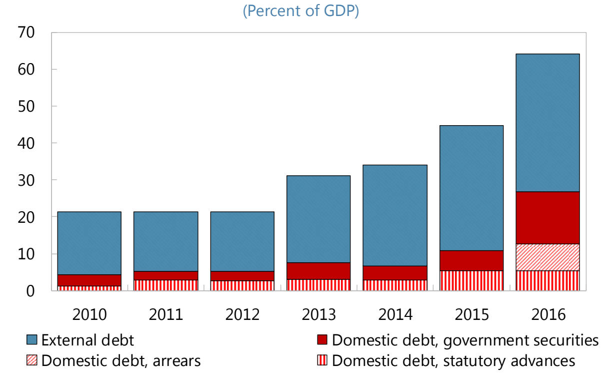
Sources: Gabonese authorities and IMF staff estimates.

[1] See International Monetary Fund. *Central African Economic and Monetary Community (CEMAC). Staff Report on the Common Policies in Support of Member Countries Reform Programs*. Regional policies include tightening of monetary policy, elimination of monetary financing of member countries, gradual elimination of statutory advances, modernization of the liquidity management framework, implementation of prudential regulations to restrict refinancing flows to members, and strengthening the banking supervision framework.

public investment), which has declined sharply since 2013 (Text Figure 1). Finally, while there are pockets of strength in the non-oil commodity sector (especially forestry and agribusiness), this emerging pillar of growth is not yet large enough to power the wider economy in the short term.

- *Rising Public Debt Levels.* Total public debt has increased from about 31 percent of GDP in 2013 prior to the oil shock to 64 percent of GDP in 2016, though the increase in external debt has been more moderate (from 24 to 37 percent of GDP) (Text Figure 2). There are three interrelated factors associated with this trend: (i) a decline in nominal GDP of about 4 percent, mostly triggered by the decline in oil prices and its negative impact on the GDP deflator; (ii) the sharp drop in oil revenues, which declined massively from about 17 percent of GDP in 2013 to 5 percent of GDP in 2016, and the use of Eurobond proceeds and domestic debt instruments to cover the fiscal gap in lieu of sufficient fiscal adjustment; and (iii) the full and transparent incorporation of domestic arrears (about 7½ percent of GDP) and statutory advances from BEAC (5½ percent of GDP) into debt statistics.

Text Figure 2. Gabon: Public Debt, 2010-16
(Percent of GDP)



Sources: Gabonese authorities and IMF staff estimates.

- *Insufficient Fiscal and External Buffers.* Treasury deposits, which are the counterpart of imputed reserves at the BEAC, remain low and need to be rebuilt gradually. Imputed reserves have declined from $2.7 billion in 2013 (covering over 4 months of imports) to about $600 million at end-2016 (covering just 1.4 months of imports).[2] Similarly, Treasury deposits at the BEAC have declined from 8.5 to about 2.4 percent of GDP over the same period. The difficulties experienced by the Treasury have resulted in the appearance of external payment arrears, amounting to 2 percent of GDP at end-2016 (which were already part of the debt statistics).

4. Over the medium term, if prudent policies are implemented as planned, Gabon's economic prospects remain positive. Recent investments in infrastructure and FDI in sectors where Gabon already has, or is developing, a comparative advantage (e.g. manganese and agribusiness) could push the growth rate back to about 5 percent. The emergence of new sectors will help diversify the economy, reduce the dependence on the oil sector and increase the country's resilience to external shocks.

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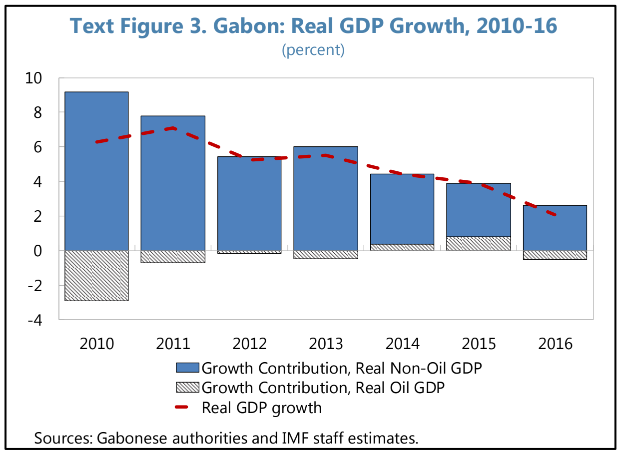
[2] Gross official reserves include gold and SDRs.

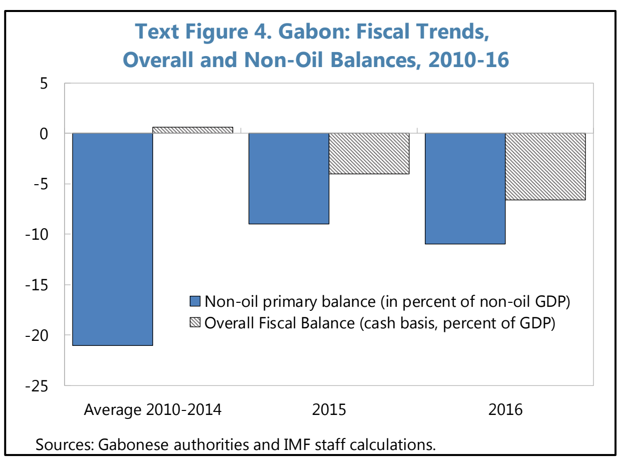
5. Despite some serious turmoil around the August 2016 Presidential election, the political situation remains relatively calm. It will be important for the government to intensify its dialogue with all political forces with a view to explaining its economic policies and ensuring relatively broad support for the policies underlying its economic program. Safeguarding critical social spending and adequate communication of policy priorities, and the various trade-offs, especially where it concerns fiscal adjustment, will be key to ensure the effective implementation of the program and its sustainability over time.

RECENT ECONOMIC DEVELOPMENTS

6. The decline in economic activity continued in 2016 (Figure 1, and Text Figure 3). Growth declined from 3.9 percent in 2015 to about 2.1 percent in 2016. Gabon's oil-centric economy is contending with declining production at aging oil fields and the knock-on effects on non-oil growth, especially via the public investment channel. Non-oil growth has halved from an average of about 7 percent during 2012–14 to around 3½ percent in 2015–16. Economic sectors that are relatively insulated from oil prices and government activity—notably agriculture, agri-business, and forestry—continued to grow at a robust 9 percent in 2016, providing decisive support to the economy at a time when traditional engines of growth were stalling.

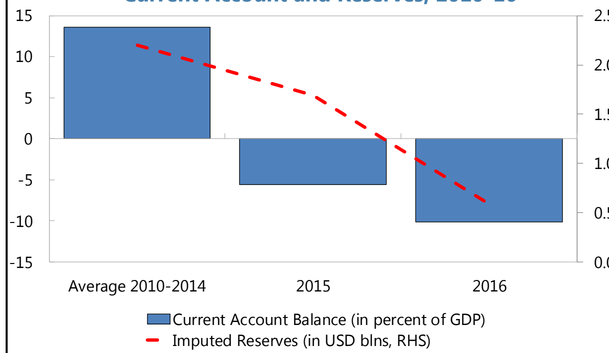


7. Despite substantial fiscal adjustment since 2014, the overall fiscal position has deteriorated substantially (Figure 2, and Text Figure 4). The non-oil primary balance improved from an average deficit of 21 percent of non-oil GDP over the 2010–2014 period to 9 percent of GDP in 2015, but deteriorated again to 11 percent in 2016. During the same period, the overall fiscal balance (cash basis) declined from an average modest surplus of 0.6 percent to a deficit of 6.6 percent of GDP in 2016. While the non-oil primary balance provides a better measure of discretionary changes in fiscal policy and can be better suited to assess exhaustibility and volatility concerns, the overall fiscal balance remains relevant given the importance of debt sustainability and overall financing constraints. In fact, the rising deficit in the overall fiscal balance has increased financing needs, which has given rise to large domestic bank financing and the accumulation of arrears (Annex II).



8. The current account deficit widened sharply in 2016. The current account balance moved from an average surplus of about 14 percent of GDP over the 2010–14 period to a deficit of over 5 percent of GDP in 2015 (Text Figure 5). The deficit worsened further to about 10 percent of GDP in 2016. The main factor driving this deterioration was the sharp decline in exports (with oil exports accounting for over 80 percent of total exports), which declined from an average level of about US$10 billion per year prior to the oil shock to less than US$5 billion by 2016. While exports declined by more than half compared with the oil boom years, the adjustment in imports was much slower, with no adjustment in 2015 and a more modest decline of about 20 percent in 2016. The deterioration in the current account is the main factor driving the decline in imputed reserves, which dropped from US$1.7 billion at end-December 2015 to about US$600 million at end-December 2016, equivalent to 1.4 months of imports.

Text Figure 5. Gabon: External Trends, Current Account and Reserves, 2010-16



Sources: Gabonese authorities and IMF staff estimates.

9. Inflation has been picking up, but it is still within the CEMAC convergence criterion. It picked up from around 0 percent, on average, in 2015 to 2 percent in 2016, due to rising fuel prices after the government eliminated most subsidies. At the same time, monetary conditions tightened in 2016. Broad money and credit to the private sector each declined by 7 and 10 percent during 2016, respectively. The decline in lending was due to several factors, including the negative impact of lower oil prices on overall business confidence, lower public spending, and increasing reluctance by banks to lend to companies exposed to government arrears.

10. The financial sector requires close monitoring, as significant signs of stress are emerging. The sector is relatively small (34 percent of GDP) and is being confronted by depressed economic activity, tightening liquidity conditions, and a rising share of loans in arrears.[3] These factors, together with some possible crowding out due to the increase in public borrowing, have been associated with a decline in private credit growth in 2016. While private banks have accumulated sufficient capital buffers, capital adequacy should be closely monitored given that the three largest banks (accounting for 3/4 of total assets) could exhaust these buffers if loans in arrears continue to increase. However, preliminary data suggest that bank profitability appears strong at end-2016, which would provide a buffer to offset some of these trends. Three public banks are insolvent and under administration; though their small size precludes systemic risks and the fiscal risk is moderate (below ½ percent of GDP), their resolution remains pending.

[3] Loans in arrears are measured after the first day a loan is considered late for payment. Arrears that exceed 90 days are considered Non-Performing Loans (NPLs).

OUTLOOK AND RISKS

11. The trend decline in economic growth is expected to continue in 2017 (Figure 3). Overall GDP growth is projected to decline to 1 percent. Non-oil growth is projected to decline from 3.3 to 1.7 percent. There are several factors behind these trends:

- **Oil Sector**. Declining oil production is expected to generate a negative contribution of about 2½ percentage points of GDP. Maturing fields and depressed oil prices are limiting new investment in the sector, while cost-cutting measures reduce purchases of goods and services from the wider economy.

- **Fiscal Adjustment**. While fiscal adjustment is needed to ensure macroeconomic stability, in the short-term it could have a negative impact on growth. While public investment in percent of GDP is expected to remain broadly constant in 2017, it has declined by about 2/3 from its 2013 peak, likely impacting critical sectors with a lag (especially construction), which will need to gradually adjust to more modest levels of public procurement. At the same time, agriculture and commodity related projects, relatively insulated from fiscal adjustment, are expected to continue to grow at about 10 percent in 2017, in line with large expansions in manganese production and ongoing agribusiness projects. However, these sectors account for about 15–20 percent of GDP and cannot fully offset the negative trends observed in other sectors.

- **Financial Conditions**. Tight monetary policy at the union level to support the peg will limit the expansion of private sector credit in the short-term. As indicated in the regional report, credit conditions will need to remain tight to reduce pressures on the external accounts coming from the non-government sector. In addition, given the existence of government arrears, banks could be more reluctant to lend to companies that rely on government procurement. This could have a negative impact on the construction, trade, and service sector, which accounts for about 60 percent of GDP. A recovery in credit growth will require restoring economic confidence, particularly through the resolution of government payment arrears, and structural reforms to improve the business climate.

12. The medium-term outlook is more promising. Over the medium term, growth can return to previous levels of 4–5 percent, supported by the authorities' ongoing diversification strategy. Large scale investments in agriculture and logistics infrastructure are projected to develop a competitive advantage in agri-business, as well as unlocking downstream activity in other non-oil commodity sectors (manganese) (See Annex I on Gabon's New Sources of Growth). Gabon's diversification strategy around these projects could help boost competitiveness and growth without the need for large changes in sectoral prices.

13. Significant structural weaknesses pose a challenge to the growth and fiscal outlook. The public finance management (PFM) system still needs to be upgraded with reforms that enhance the efficiency and transparency of the expenditure chain (see below). Furthermore, efforts to maintain financial stability and improve the business environment, where Gabon has been regressing in recent years, are essential to ensure the success of the economic diversification strategy.

14. Risks to the outlook are high but manageable if adequate policies stay on track.

- In the short term, growth may underperform if confidence remains weak. This could be the case, for example, if there are delays in the authorities' plans to pay arrears. Growth could also underperform in the short term if BEAC's expected tight monetary policy constrains credit growth more than expected.

- While Gabon does not have a solvency problem, the country's elevated gross financing needs require close adherence to a well-articulated cashflow plan.

- Lower energy prices and/or tighter international financing conditions could entail additional headwinds for Gabon's recovery plan, calling for the use of conservative oil production and revenue assumptions and prudent fiscal policies that build in contingency buffers.

- Over the medium term, the protracted effects of fiscal adjustment, the slow process of factor price adjustment, or delays in the implementation of the ongoing agri-business projects (essential for a successful economic rebalancing) could reduce growth by two to three percentage points.

- On the upside, if macroeconomic stability is preserved and the business environment improves, much higher FDI inflows could boost growth further than currently envisaged. Staff has only incorporated in the projections about 50 percent of the expected FDI inflows over the program period to factor in possible project implementation delays, while leaving some upside potential.

ECONOMIC POLICIES FOR 2017–20

A. Overall Strategy

15. The program builds on the strategy set out in Yaoundé.[4] Recognizing the potentially serious economic and political disruptions from a change in the exchange rate regime, this meeting agreed on a strategy based on maintaining the current peg, combined with substantial fiscal adjustment in each country, and supported by tightening of monetary policy at the regional level. In line with this overall approach, Gabon's strategy is based on a country specific adjustment program which—in conjunction with other members of the monetary union—seeks to resolve their balance of payments difficulties and ensure the sustainability of the monetary union.

[4] A Heads-of-State Summit on December 23, 2016 in Yaoundé discussed the overall regional approach.

16. The authorities have requested an extended arrangement under the EFF to support their medium-term economic recovery program. A key priority of the authorities' economic program is to ensure debt sustainability and contribute toward rebuilding the regional foreign exchange reserve pool. In addition, the program will address long-standing structural weaknesses that have been associated with the boom-bust cycle that characterizes the Gabonese economy. Furthermore, the program will strengthen financial sector soundness, and protect the most vulnerable groups of the population. Given the nature of the protracted balance of payments need and time horizon for structural reforms envisaged under the program, an extended arrangement under the EFF is proposed.

17. Fund financing under the extended arrangement will be complemented by budget support from other multilateral and bilateral donors. The long maturity profile of these loans, along with fiscal adjustment, will reduce cash flow pressures and help preserve debt sustainability. All partners have collaborated closely to ensure consistency and complementarity of the policy content of their lending.

B. Fiscal Policy

18. The stability of the medium-term macroeconomic outlook relies on strong fiscal consolidation efforts. Fiscal adjustment seeks to reduce the overall fiscal deficit (on a cash basis) from 6.6 percent of GDP in 2016 to 4.6 percent in 2017, and gradually adjust it further to achieve balance by 2020. The non-oil primary deficit (which is the operational target under the program) is projected to decline from 11 percent of non-oil GDP in 2016 to 8.9 percent in 2017, and gradually improve toward 3–4 percent by 2020 (Box 1).

19. There are four factors that need to be taken into consideration when assessing the fiscal stance.

- *Ensuring Debt Sustainability*. Full implementation of a decisive fiscal adjustment program and a strong recovery of non-oil growth are needed to help stabilize public debt (including domestic arrears) below 65 percent of GDP in the short term, and generate a gradual decline towards 50 percent of GDP after 5 years.

- *Facilitating External Adjustment*. Fiscal adjustment is also key to contribute to external adjustment. This will help generate an improvement in the current account deficit from 10 percent of GDP in 2016 to below 3 percent of GDP by the end of the program (2020), and ensure that Gabon gradually contributes to the buildup of international reserves at the regional level.

- *Managing Exhaustibility and Volatility*. At current oil production, without new discoveries, Gabon has a resource horizon of about 20–25 years, though not all oil fields are commercially viable without new investment. While the current budgetary situation does not allow saving a substantial part of the oil revenues, the 2017 supplementary budget projects that 5 percent of the oil revenues will be saved in a stabilization fund (MEFP, ¶9).

- *Cyclical Conditions*. Given large gross financing needs of about 12 percent of GDP on average per year in 2017–18, and downside risks to growth, a larger fiscal adjustment package could have been considered. However, with growth already on a downward trend, greater fiscal adjustment could exacerbate the downturn.

Box 1. Conceptual Issues in Assessing the Fiscal Stance and Fiscal Anchor in Gabon

Assessing the fiscal stance and choosing the most adequate fiscal anchor to guide fiscal policy decisions in Gabon is an exercise subject to a substantial degree of complexity. First, as a resource rich country with a short reserve horizon (i.e. oil reserves expected to last less than 30 years), exhaustibility concerns are important. In these cases, the non-oil primary balance (NOPB), which excludes oil revenues and interest payments, seems to be the most adequate fiscal indicator. Given frequent changes in oil prices that affect the oil GDP deflator, scaling the NOPB to non-oil GDP reduces the volatility of this measurement. The critical insight is that Gabon should not be "consuming" all its oil assets through the budget as it was doing during the oil boom years (2010–14), when the NOPB registered average deficit levels above 20 percent. During this period, oil revenues averaged 15½ percent of GDP per year (27½ percent of non-oil GDP). By contrast, they are projected to decline by 2/3 over the next five years (2017-22) and average only about 5 percent of GDP.

One way to calibrate the NOPB is by considering a Permanent Income Hypothesis (PIH) Rule. Under this rule, Gabon would be able to sustain a constant consumption flow that would be equal to the net present value (NPV) of its oil wealth. However, this approach is hampered by uncertainty with the viability of some of the oil reserves, and the sensitivity of the calculations to assumptions about long-term oil prices. Crucial short-term fiscal policy decisions cannot be based on such imprecise calculations. In addition, this rule has been criticized as excessively conservative for non-advanced economies.

A practical approach would be to derive the changes in the NOPB from other fiscal indicators that address more directly issues of demand management and sustainability. The key fiscal policy objective is to stabilize the public debt level and place it on a downward path. Using standard fiscal indicators, stabilizing the debt ratio can be achieved with a *primary deficit* of about ½ percent (Annex IV). With interest payments expected to average 2¼ percent of GDP per year, this suggests that the overall fiscal deficit (commitment basis), should not exceed 3 percent of GDP. This objective is achieved over 2017–18, steadying debt at around 64 percent of GDP. Beyond this point, additional fiscal adjustment over five years to a small surplus would place public debt on a path below 50 percent, or provide a sufficient buffer to at least contain debt if the underlying assumptions on growth and interest rates are worse than anticipated.

Gabon: Selected Fiscal Indicators, 2010-22

	2010-14 (avg.)	2015	2016	2017	2018	2019	2020	2021	2022
Overall fiscal balance (percent of GDP)									
Commitment	2.2	-1.0	-5.0	-3.3	-1.2	-0.6	-0.3	0.4	0.6
Cash	0.6	-4.0	-6.6	-4.6	-2.3	-0.6	-0.1	0.4	0.6
Primary fiscal balance (percent of GDP)									
Commitment	3.5	1.1	-2.7	-0.1	1.5	2.1	2.4	2.9	3.0
Cash	2.0	-2.0	-4.3	-1.5	0.4	2.1	2.5	2.9	3.0
Non-oil primary balance (percent of non-oil GDP)									
Commitment	-21.4	-9.0	-11.0	-8.9	-6.0	-4.3	-3.6	-2.5	-2.0
Cash	-24.0	-13.6	-13.2	-10.8	-7.5	-4.3	-3.5	-2.5	-2.0

Sources: Gabonese authorities and IMF staff projections.

20. The initial fiscal consolidation in 2017 relies on an increase in non-oil revenues and strong measures to contain current spending. The increase in non-oil revenues seems ambitious given the low level of economic activity, but would be feasible if the measures proposed by the authorities and supported by the Supplementary Budget are implemented as planned (MEFP ¶12, 13). These would include: (i) enforcement of withholding taxes on personal and corporate income for non-residents through the use of bank accounts (0.1 percent of GDP), and (ii) reduction of several VAT and custom duty exemptions (0.4 percent of GDP).[5] Tax collections are also expected to increase toward the second half of the year, once the government's liquidity position improves and it starts settling its arrears with suppliers. On the spending side, with public investment already down by ⅔ since its 2013 peak, the authorities want to emphasize measures to contain current spending, especially the wage bill (8.8 percent of GDP in 2016), which is very high by international standards. Additional savings have also been proposed, on goods and services and transfers and subsidies (Text Table 1).

Text Table 1. Gabon: Composition of the Fiscal Adjustment
(percent of GDP)

	2017
Non-oil revenue	**0.7**
Rationalization of tax exemptions (incl. reduction of the number of basic products that are exempted from import tax and VAT)	0.4
Enforcement of withholding tax for non-residents	0.1
Other 1/	0.2
Primary spending 2/	**-1.7**
Wage bill	**-0.5**
Retirement of about 1,200 civil servants	…
Review of remuneration policies	…
Goods and services	**-0.7**
Savings on one-off expenditure for the 2017 soccer cup	-0.2
Establishment of a central purchasing office	-0.2
Rationalization of administrative leases	-0.2
Other 3/	-0.1
Transfers and subsidies	**-0.5**
Abolition of subsidy on flour	-0.1
Streamlining university scholarship awards	-0.1
Streamlining other subsidies and administrative measures 4/	-0.4

Sources: Gabonese authorities and Fund staff calculations.

1/ This comprises several measures, including easing of directive regulating the import of used vehicles.
2/ Excludes net lending, the road fund, and special accounts financed with earmarked revenue (on which associated spending largely occurred outside budget processes prior to 2017).
3/ These include a list of 9 different administrative measures.
4/ These include a list of 14 different measures.

21. Over the medium-term (2017–20) fiscal consolidation relies on non-oil revenue mobilization efforts, wage bill reform, and the integration of earmarked revenues into the budget (Text Table 2).[6] Non-oil revenues are projected to increase from 12.7 to 14 percent of GDP, thereby offsetting the expected decline in oil revenues associated with lower production levels. The recovery in economic activity and tighter controls of tax expenditures make this target feasible. Wage bill reform is expected to contribute to savings of about one percent of GDP between 2017 and 2020, supported by a review of

Text Table 2. Gabon: Medium-Term Adjustment Path, 2017-20
(Percent of GDP)

	2017	2020	Diff.
Total revenue	**18.8**	**19.1**	**0.4**
Oil revenue	6.0	5.1	-0.9
Non-oil revenue 1/	12.7	14.0	1.3
Total expenditure	**22.0**	**19.4**	**-2.6**
Current expenditure	15.8	14.4	-1.4
Wages and salaries 2/	8.3	7.3	-0.9
Goods and services	2.2	2.2	0.0
Interest payments	3.1	2.7	-0.4
Transfers and subsidies	2.2	2.2	0.0
Road Fund	0.2	0.0	-0.2
Special accounts 3/	1.2	0.0	-1.2
Capital expenditure	4.9	5.0	0.1

Sources: Gabonese authorities; and IMF staff estimates and projections.
1/ Medium-term fiscal strategy relies on the mobilization of non-oil revenue through (i) streamlining of tax exemptions; and (ii) strengthening tax administration (including establishment of a renenue authority).
2/ Reduction of the wage bill through attrition and review of remuneration policies.
3/ Elimination of earmaking system by integrating such expenditure into the budget.
4/ Records cash expenditure on payment orders issued the previous year (budgetary float).

[5] Some of these exemptions can be eliminated quickly, while others will require more analytical work. The authorities are committed to the implementation of a full review of the system of exemptions, publishing an Annex in the 2018 budget law (structural benchmark, end-December 2017).

[6] Staff has recommended additional work to provide more precise costing of fiscal adjustment measures over the medium term. The authorities noted that work is ongoing to this effect and a further discussion will be initiated in the context of the 2018 Budget Law.

remuneration policies, elimination of the system of automatic promotions, and reductions in the replacement rates, which will allow for a moderate decline in public employment levels in non-priority sectors. Finally, the transparent integration of earmarked revenues into the budget process should eliminate the need for transfers to special accounts. This is expected to generate savings of about 1.2 percent of GDP.[7]

22. The fiscal strategy also envisages repayment of statutory advances to BEAC, a gradual buildup of deposits, and a fiscal rule to contain the budgetary float (MEFP ¶9).

- *Stopping the recourse to statutory advances from BEAC will eliminate a form of fiscal dominance that was contributing to the loss of reserves*. As with other countries in the region, Gabon was using statutory advances not as an instrument of short-term liquidity management, but as a regular form of budget financing. By recognizing that the failure to repay these advances is in fact equivalent to the accumulation of domestic arrears, and then incorporating its stock in domestic debt statistics, the Gabonese authorities have signaled their willingness to address this issue. The program envisages a repayment plan over 10 years, with a first payment of CFAF 25 billion (0.3 percent of GDP) in 2017.

- *The authorities are also targeting a gradual build-up of Treasury deposits at BEAC*. The accumulation of deposits is linked to the need to save part of the oil revenues for the reasons stated above, with modest initial savings at the beginning of the program (5 percent of oil revenues), but gradually increasing to 20 percent of oil revenues by the end of the program.

- *The 2017 budgetary float[8] will be capped at 10 percent of non-wage primary spending (excluding externally-financed investment)*. This is about CFAF 51 billion (0.6 percent of GDP), representing one-third of the level observed in recent years. This suggests a need to closely monitor commitments, payment orders, and actual payments for categories of spending that have typically been financed through the accumulation of arrears to suppliers in the past.

23. The program fully recognizes all arrears into fiscal and debt statistics. For transparency, all arrears and statutory advances have been included in the debt stock, and the authorities have prepared a plan to clear them over time (Annex II; MEFP ¶18–23). This has led to an increase in the debt stock by about 10 percent of GDP to 64 percent of GDP at end-2016. Overall, the DSA (Annex IV) indicates that debt remains sustainable and the envisaged fiscal adjustment and related

[7] Special accounts include certain public entities and budget funds used for specific purposes. Some generate their own revenues while others are financed through earmarked tax revenues that are not always integrated into the budget process. When the special funds are in balance, it implies that they are not running an operational deficit, constraining spending to the resources they have raised autonomously and/or the earmarked revenues that have been transparently accounted for. The law requires that expenditures related to special accounts do not exceed accounted revenues.

[8] The budgetary float refers to payment orders that have not been settled. It differs from the legal definition of domestic arrears that usually requires a payment delay of more than 90 days.

broader macro framework generate a declining debt trajectory over the medium term. Nonetheless, while Gabon does not have a solvency problem, the country's gross financing needs amount to about 14½ percent of GDP in 2017. This elevated level of financing needs requires that the authorities adhere closely to a well-articulated cashflow plan.

24. Fiscal adjustment should be mindful of the need to protect the most vulnerable groups of the population. With support from the World Bank, the authorities have introduced a social spending floor as an indicative target under the program. The scope of the indicator has been initially narrowed to the most relevant programs to ensure adequate targeting.[9] Protected spending includes (i) basic goods and services, school infrastructure and rehabilitation for primary, secondary, and vocational education, (ii) basic goods and services and transfers to primary health facilities, and (iii) health insurance and targeted safety nets for vulnerable groups (including cash and in kind social assistance programs) (MEFP ¶30).

25. The program also includes contingency measures, should growth and/or revenues disappoint. To mitigate the substantial short-term liquidity risks, the authorities are committed to identifying public investment projects totaling at least CFAF 40 billion (0.5 percent of GDP) that will be subject to postponement or cancellation in case of revenue shortfalls. They will also prepare a plan to mobilize additional privatization receipts as a backstop measure.[10] While adequate planning is needed to avoid fire sales and maximize value-for-money, the government owns liquid shares in several companies (especially in the natural resource sector), which could be sold to mobilize privatization receipts if cash constraints intensify. In addition, there is an estimated stock of about 5 percent of GDP in domestic tax arrears from private sector companies that the authorities could try to mobilize more aggressively. Most importantly, the government is committed to taking further revenue and expenditure measures required to meet its budget targets and limit the increase in indebtedness (MEFP ¶10). Finally, if all these measures proved insufficient, the authorities could reprofile the repayment of domestic arrears, which is currently frontloaded.

C. Strengthening Public Financial Management (PFM)

26. Gabon has made substantial progress on PFM reforms, but some important weaknesses remain and should be addressed urgently (Box 2). All CEMAC PFM directives have been transposed into national law, and program budgeting was introduced in 2015 with the support of Gabon's development partners, including the Fund. The authorities are committed to

[9] The social spending indicator provides protection to about ¼ of the domestically financed part of the budget (excluding wages and salaries and interest payments).

[10] The portfolio of the national holding company (*Fonds Gabonais d'Investissements Strategiques*) included 68 commercially-oriented companies at end 2015, of which 80 percent involve minority government stakes. Staff's preliminary analysis indicates that the market value of these assets is at least CFAF 550 billion when considering the 6 largest companies (i.e. petroleum production, distribution, mining, and telecoms). On the high end, the potential market value could reach CFAF 850 billion including a range of smaller commercially-oriented enterprises, as well as more favorable assumptions on the valuation of the state's interest in oil companies. These valuations exclude the state's interest in public goods such as utility infrastructure, where increased private involvement requires considerable impact analysis and regulatory reform.

implementing the reforms in this new PFM legislative framework, including key provisions relating to in-year fiscal reporting and adjustments, and a progressive transition to accrual accounting (MEFP, ¶24).

27. PFM reforms will focus on three fundamental areas where decisive progress is needed.

- **Management and Prevention of Arrears**. Strict controls of spending procedures and public procurement, combined with close monitoring of outstanding payments, should help prevent the accumulation of new arrears. This will require (i) strengthening expenditure controls through the establishment of an operational legal framework to regulate expenditure execution and strictly limit procedures that bypass the regular expenditure chain (prior action), (ii) operationalizing the Integrated Financial Management Information System (IFMIS) module that tracks expenditure commitments and makes payments conditional upon the issuance of payment orders (MEFP¶22; SB end-June 2017), and (iii) publishing quarterly reports on the stock of budgetary float and arrears (MEFP¶22–23; SB end-September 2017). These efforts will also be supported by an independent audit of arrears incurred in 2015–16 to draw appropriate lessons, prevent over-invoicing, and certify whether some domestic arrears are associated with extra budgetary spending (SB end-March 2018).[11]

- **Increasing Expenditure Efficiency**. Reducing the amount of public procurement granted on a non-competitive basis to 15 percent of the total value of contracts, in line with the national law on public procurement (MEFP, ¶27) should help reduce costs and increase the value-for-money of public spending. Similarly, efforts to improve public investment management, including through greater use of feasibility studies and more rigorous vetting procedures would help to better align investment projects to the sectors offering the greatest potential (MEFP¶28; SB end-December 2017).

- **Budget Transparency and Fiscal Risk Management.** Coverage and transparency of the budget needs to be enhanced. This requires full recognition of earmarked revenues and programs financed by them, and the incorporation of the operations of extra-budgetary entities into the budget process. The authorities have already started the process by reintegrating three entities into the budget and plan to further improve budget coverage and transparency, by gradually including operations of other extra-budgetary entities (MEFP, ¶26). Finally, there is a need to strengthen supervision of public agencies and state-owned enterprises (SOEs) and to assess fiscal risks (MEFP, ¶29). The authorities agreed with staff that fiscal risks associated with public entities beyond the central government needed to be analyzed further, but noted that these entities do not enjoy autonomous borrowing

[11] The experience of 2014 indicates that the audit could uncover undisclosed liabilities of 1–2 percent of GDP, which would have to be addressed during 2018–19 with a substantial haircut (given that the spending occurred outside normal procedures) and further fiscal adjustment.

capacity and their debt to suppliers has already been integrated in the budgetary float. Staff suggested that a more detailed assessment and disclosure of these risks is needed.

Box 2. 2016 PEFA Assessment

In 2016, the Gabonese authorities requested a Public Expenditure and Financial Accountability (PEFA) assessment to take stock of progress made since the 2013 evaluation. This assessment is the first to be undertaken in a CEMAC country using the upgraded 2016 PEFA methodology, which is based on 31 performance indicators of the strengths and weaknesses of PFM. The assessment, funded by the European Union and led by IMF staff, was completed in April 2017.

While there were some improvements with the recent implementation of policy-based budgeting, basic PFM functions remain weak. The new PEFA assessment finds that a quarter of the indicators have improved, mainly in the areas of policy-based budgeting and timeliness of fiscal reporting, thanks to major PFM reforms implemented by the government since 2015. However, performance of most indicators fell below the basic level of international best practices, with weaknesses in the areas of arrears management, expenditure execution, control and audit, public procurement, public investment management, oversight of public entities, and fiscal reporting. The underlying causes include excessive use of unorthodox procedures in budget execution and public procurement, and insufficient coordination in the consolidation of fiscal data and in ensuring reliability.

The new PEFA assessment emphasizes the need to consolidate key elements of the system. The PFM reform strategy should focus on the need to (i) reestablish budget execution regularity and reliability; (ii) control fiscal risks; and (iii) improve the comprehensiveness and transparency of fiscal reporting. In the short term, the authorities should prioritize (i) implementation of internal procedures and controls to ensure that expenditures follow regular procedures; (ii) introduction of an expenditure arrears reporting system; (iii) strengthening institutional arrangements for the oversight of public entities; (iv) data collection and dissemination to enhance planning and monitoring of public investment projects; and (v) broadening coverage of the budget to include revenues and expenditures that are not currently reported.

D. Safeguarding Financial Sector Stability

28. Financial sector stability will require close monitoring of two critical areas: (i) the increase of loans in arrears in banks and (ii) the situation of the three public banks in distress. Over the last two years, the ten banks in operation in Gabon have been affected by the downturn in economic activity and the financial difficulties of their clients, especially those negatively affected by the accumulation of domestic government arrears and the reduction in public procurement.

- **Overall Context**. Financial sector indicators show that the banking sector is still well capitalized (except for the three public banks) and profitable, but significant signs of stress are emerging that could destabilize the system: (i) a drop of deposits in the second half of 2016 (8 percent y/y); (ii) increasing recourse to refinancing from the central bank; (iii) a fall in credit to the private sector of about 10 percent in 2016; and (iv) an increase in loans in arrears held by banks from 5.3 percent of total credit in mid-2014 to 9.7 percent in December 2016.

- **Solvency and Liquidity**. Private banks remain solvent, with a solvency ratio of 13.1 percent at end-December 2016, largely above the 8 percent prudential level, which is expected to be raised progressively to 10.5 percent. By contrast, public banks are largely insolvent, with a solvency ratio that over the last three years has deteriorated from -5.6 percent to -219 percent. Liquidity ratios in private sector banks are still respected, but liquidity conditions are increasingly tight. Up to 2014, there was excess liquidity in the system and no need to access the central bank refinancing window. While still relatively small, central bank refinancing now represents 2.8 percent of banks' balance sheets and is on a rising trend.

29. The program identifies measures to address near-term financial sector vulnerabilities. The two most important steps the authorities have agreed to take are (i) the timely and orderly resolution of the three distressed banks, while considering the need to mitigate the impact on financial inclusion, given that one of the banks is currently the sole provider of basic banking services in most rural regions (MEFP, ¶37); and (ii) a government strategy to clear domestic arrears that are negatively affecting the liquidity of government suppliers and their capacity to service their loans (MEFP, ¶36); and (iii) preparation of a national strategy to strengthen the legal and supervisory frameworks concerning non-performing loans (SB, end-September 2017).

30. The three public banks in distress are not systemically important, but should be resolved as soon as possible. They have less than 10 percent of market share and are not systemic. Despite their weak balance sheets, they have been largely inactive and have not become a source of stress for the banking system. However, they do not meet prudential rules, keep accumulating losses and are a source of fiscal risk. Nonetheless, their combined recapitalization would be costly (at CFAF 100–150 billion, or 1.2 to 1.7 percent of GDP). Estimates of the cost of orderly liquidation of the banks would be lower (about 0.4 to 0.7 percent of GDP).

31. The three banks are under administration and the authorities' formulation of a plan to resolve them is a structural benchmark under the program. Although the substance of the authorities' plan is still being finalized, staff considered that a well-defined strategy should realistically include an orderly liquidation of two of the three banks. If the current legal resolution framework is not adequate, it should be revised while these banks are under administration. Other options might nevertheless be presented by the authorities. This would have to be done in cooperation with the Central Africa Banking Commission (COBAC), which would have to ensure consistency at the regional level. On the restructuring of the third public bank, staff considers that it could involve the sale of its financial activities (accompanied by temporary financial incentives, if necessary). If this is not feasible, basic financial services (e.g. deposits, current accounts, and debit cards) could be preserved while its other banking activities could be orderly phased out. In all cases, staff will follow up closely with the authorities, and will aim at a rapid execution of their plans.

E. Supporting Economic Growth and Diversification

32. The oil shock is a stark reminder of the need to accelerate efforts to diversify the Gabonese economy. The establishment of special economic zones (SEZs) and public-private partnerships (PPPs) has helped to attract large foreign investors into new sectors, such as agribusiness, where Gabon is developing a competitive advantage. These investments will help to diversify the export base, but their potential to catalyze new poles of growth will depend on the existence of an overall enabling business environment beyond the SEZs. However, Gabon's ability to monitor these growing sectors is hampered by limited capacity to produce timely and reliable statistics; below that observed in other countries at a similar level of development. For example, the lack of quarterly GDP series makes it difficult to track the evolution of economic activity in real time. In addition, better coordination is needed with regional institutions (especially BEAC) to enhance the quality and timeliness of BoP statistics.[12]

33. The program focuses on reforms to improve the business climate. Despite its relatively high income per capita, Gabon scores lower than average in Sub-Saharan Africa in starting a business, dealing with construction permits, registering property, paying taxes and enforcing contracts.[13] The authorities will strengthen their active dialogue with investors and entrepreneurs via the high-level council for investment (created in 2014), helping to identify key strategic structural reforms to improve the business environment (MEFP, ¶41). Initially, the program highlights institutional and legal bottlenecks to new investment, notably land titling, dispute resolution, and streamlining red tape and award of construction permits (MEFP, ¶41). Furthermore, the program underlines the need to implement the new PPP framework to evaluate new projects and monitor potential fiscal risks (MEFP ¶41, SB end-September 2017). In addition, the authorities should strengthen coordination with regional institutions (especially BEAC) to enhance the quality and timeliness of national accounts, fiscal, and balance of payment statistics with a view to enhancing macroeconomic management.

[12] The last officially published BOP statistics date back to 2005, and in the interim only summary tables are available. With assistance from the Statistics Department of the IMF, BEAC is aiming to produce official external statistics up to 2012 by end-December 2017.

[13] Gabon is ranked 164 in the Doing Business Rankings.

PROGRAM MODALITIES

34. **The 2014 downward and enduring oil price shock generated balance of payments needs warranting Fund support to rebalance the economy.** For many decades, Gabon has extensively relied on oil exports as a motor for output and securing external balance. Through its *Plan Stratégique Gabon Emergent* (PSGE), which started in 2012, the government has started implementing a broader strategy to diversify the economy and reduce its dependency on natural resources. A series of investments, particularly in agri-business and improving the supporting infrastructure, started generating output and contributing to the structural adjustment of the economy. However, the bulk of these greenfield investments is taking place in the near term and the related on-streaming of output will take place in lockstep. Hence, to allow sufficient time for this organic economic rebalancing, budget support from multilateral and bilateral partners is needed. The macroeconomic conditions qualify Gabon for an extended arrangement under the Extended Fund Facility.

35. **Program conditionality.** The program will be monitored in semiannual reviews (Table 8) through quantitative performance criteria (PCs), indicative targets (ITs), and structural benchmarks (SBs) (MEFP, Tables 1–2). The PCs are set on the primary fiscal balance (excluding oil revenue; payment order basis), net claims of the banking system on the central government, central bank net claims on central government (excluding use of IMF credit), on contracting or guaranteeing of external debt, and non-accumulation of new external arrears. The ITs are set on net reduction in the stock of domestic arrears, tax revenues (excluding oil revenue), and critical social spending programs. The PCs and ITs are defined in the TMU.

36. **Access for the extended arrangement under the Extended Fund Facility is proposed at 215 percent of quota (SDR 464.4 million, or about $628.362 million)**.[14] This level of access is based on staff's assessment of the outlook, the strength of the envisaged reforms, and the estimated gross external financing requirements during the program period. The projected financing gaps for the period 2017-2020 amount to 15.3 percent of GDP, and the Fund is expected to contribute 4.3 percent of GDP, representing about 28 percent of the financing gap. The rest of the financing gap will be covered by budgetary support from the African Development Bank, the World Bank, and France. Firm financing assurances for the first year of the program have been provided with good prospects for the rest of the program period.

37. **Gabon has outstanding bilateral arrears with Austria, Canada, China, France, Germany, Israel, Korea, and Spain**. The Gabonese authorities have indicated their intention to resolve about US$115 million in bilateral arrears, which arose due to the fiscal difficulties associated with the sharp decline in their oil revenues, prior to the first Fund-supported program review. These creditor countries have been contacted and provided consent to this approach. Gabon also has external arrears to commercial creditors. In line with the Fund's Lending-into-Arrears Policy, staff has

[14] With an estimated income per capita of US$7,506 in FY2016—well above the IDA cutoff of US$1,185—Gabon is classified as a middle-income country and not eligible for accessing concessional IMF resources.

ascertained that Gabon is making a good faith effort to reach a collaborative agreement with its commercial creditors. The authorities have shared relevant information regarding their financial difficulties and provided creditors with an opportunity to give inputs on their strategy to clear commercial arrears. As prompt Fund financial support is considered essential for the successful implementation of Gabon's program and Gabon is pursuing appropriate policies, the Fund may provide financing to Gabon notwithstanding its external arrears to commercial creditors.

38. Capacity to repay the Fund. Gabon is expected to be able to meet its obligations under the proposed arrangement. The country currently has no Fund credit outstanding. Total IMF exposure would be limited to at most 3.8 percent of GDP, or about 37.8 percent of imputed gross reserves. Thus, staff assess that Gabon will maintain sufficient capacity to repay its obligations to the Fund.

39. Program risks are high but remain manageable if the authorities maintain the level of commitment they have demonstrated in recent months. While there are substantial risks of domestic policy slippages, given the sensitive nature of several policy recommendations and the electoral cycle (with parliamentary elections scheduled for the fourth quarter of 2017), the authorities have reiterated to staff that the rigorous implementation of the program is crucial to maintain the creditworthiness of Gabon. While implementation capacity is bound to be taxed by the broad reform agenda, it is backed by strong political support, including from the highest level of the government, and the authorities have agreed to hold quarterly staff visits by IMF staff between the semi-annual reviews. The Fund is also committed to supporting the authorities with technical assistance in several areas.

40. Ahead of the Executive Board meeting, the authorities have implemented the following measures, as prior actions:

- Submission to Parliament of FY2017 supplementary budget and supporting measures, consistent with program parameters.
- Publication of an Executive Order implementing the general accounting regulation on procedures for expenditure execution, clarifying roles, responsibilities, and requirements to be met for regulated derogations.

41. Safeguards assessment.[15] The BEAC is finalizing implementation of remaining priority recommendations as part of IMF safeguards "rolling measures." Following numerous measures adopted in recent years, at end-March 2017 the BEAC Board of Directors and CEMAC Ministerial Committee successfully adopted the critical governance-focused amendments to the BEAC Charter, marking a key milestone on long-standing efforts to strengthen governance at the central bank. In addition, major advances have been made for the BEAC's full transition to International Financial

[15] The implementation of safeguards recommendations is currently monitored annually as a condition for continued IMF financial engagement with CEMAC countries. The 2016 safeguards monitoring found two priority recommendations remained outstanding: governance reforms with amendments to the BEAC Charter and full transition to IFRS starting with the 2018 financial statements to strengthen transparency of financial reporting.

Reporting Standards (IFRS) during 2017. A full safeguards assessment under the periodic four-year cycle for regional central banks is scheduled for the May-June 2017 timeframe.

STAFF APPRAISAL

42. Gabon is facing a very challenging economic environment. While the overall economy has not yet officially entered a recession, there are serious signs of distress in the system. Economic activity is decelerating rapidly, large fiscal and external imbalances have become unsustainable, and public debt levels have been rising fast, once the impact of government arrears and central bank financing through statutory advances is properly accounted for. These trends have eroded confidence in the short-term prospects for the Gabonese economy. There is no doubt that the decline in oil prices since 2014 represented a large terms-of-trade shock that accounts to a substantial degree for these trends. However, the lack of precautionary savings that could have been accumulated during the oil boom years, and delays in the fiscal response have exacerbated the severity of the shock and increased the magnitude of the risks.

43. The authorities have expressed strong commitment to take decisive policy action to address these challenges. Staff and the authorities agreed that fiscal consolidation is the most important instrument in the short-term. The main objective is to stabilize debt and place it on a downward path over the medium term, while limiting the negative impact of adjustment on growth (protecting to the extent possible the public investment program) and on the most vulnerable groups of the population. Efforts to mobilize non-oil revenues and contain current spending, including through wage bill reform should play a key role. A lower fiscal deficit, strict limits on domestic financing, and the gradual accumulation of Treasury deposits and repayment of statutory advances from BEAC should also contribute to the buildup of reserves at the regional level.

44. Downside risks are high. There are three channels through which risks to the Fund-supported program could rise in the short term. The first risk is that other countries in the region do not follow through with similar economic programs as part of a well-coordinated response at the regional level. This would reduce confidence in Gabon and could have a negative impact on growth, threatening the sustainability of the Fund-supported program. The second risk would be associated with delays to rein in spending as planned. This would make it difficult to start rebuilding reserves and would undermine the process of clearing arrears, with a potentially negative impact on the local banking system and Gabon’s creditworthiness. The third risk would arise if the critical structural reforms are not implemented as planned. For example, failure to strictly respect PFM and procurement systems would result in a new problem of extra budgetary spending, and could compromise the willingness of the international community to provide critical external financing, which is crucial to cover the budget financing gap.

45. However, there are mitigating factors in favor of Gabon. These include the strong performance of some sectors (e.g. agribusiness), and the possibility of using privatization receipts to mitigate or offset financing constraints. But unwavering commitment, strong coordination at all levels of government, and adequate monitoring systems will determine the chances of success of the Fund-supported program.

46. Strong contingency measures are needed. Considering the large gross financing needs, the authorities will need to manage their budget with extreme prudence. Strict controls on spending commitments should consider the available cash at the Treasury, adjusting maximum spending levels in line with the pace of revenue collections, which could disappoint if downside risks to growth materialize. The decision to freeze 10 percent of the investment budget and only release it later in the year depending on the evolving fiscal position is a step in the right direction, but it might prove insufficient. While the repayment of the budgetary float from previous years is expected to be executed over two years (as part of the arrears clearance strategy), the fiscal year budgetary float at end-2017 should be strictly restricted in line with the parameters agreed under the Fund-supported program. This is crucial to enforce the fiscal adjustment and prevent transferring the tight cash constraints of the current year to the next budget year. While debt remains sustainable, the authorities should stand ready to take any revenue or spending measures needed to prevent any further increase in debt levels.

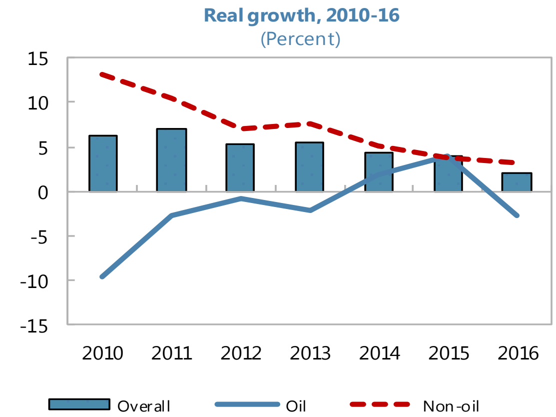
47. Provided the corrective actions envisaged under the Fund-supported program are implemented rigorously, the medium-term prospects for Gabon remain strong. Staff assessed Gabon's external position in 2016 as substantially weaker than warranted by fundamentals and desired policies. The sharp deterioration of the current account balance in the aftermath of the oil price shock has generated a balance of payment need that will be covered mostly through bilateral and multilateral budget support. These funds will allow sufficient time for the authorities to adjust and rebalance the economy. The authorities' diversification strategy is already producing some positive results, partially offsetting the decline in growth in other sectors and with the potential to lift the growth rate over the medium term. Increases in agricultural production and processing could reduce the country's dependence on imports, and generate a new export base that reduces dependence on the oil sector. This would help restore external stability without a need for deep changes in sectoral prices to restore competitiveness.

48. Program monitoring, including through the production and dissemination of economic statistics to support policy making will require decisive improvements. The production of fiscal data will also require substantial improvements with a need to ensure (i) shorter lags in the production of revenue and expenditure data, (ii) better reconciliation of above and below the line data, and (iii) a system to neutralize the distortions generated by earmarked revenues and special funds. The authorities recognize the importance of these issues and are receiving Technical Assistance to address existing data weaknesses.

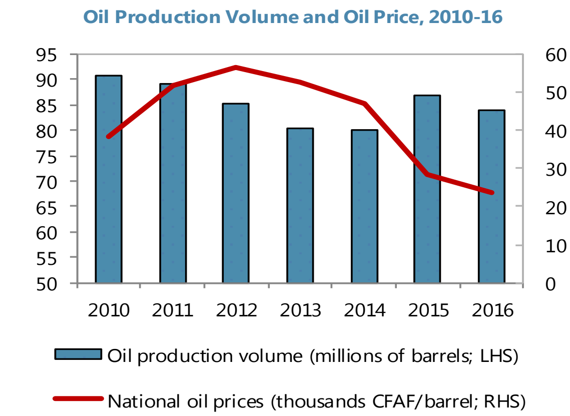
49. In view of Gabon's large external financing needs and the authorities' strong policy commitments, staff supports the authorities' request for the extended arrangement under the EFF with access equivalent to SDR 464.4 million (215 percent of quota).

Figure 1. Gabon: Selected Economic Indicators, 2010–16

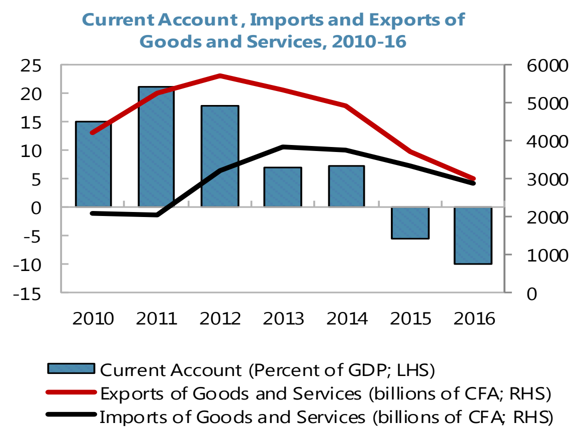
Growth continued to decelerate due to the oil price shock and the knock-on effect on non-oil growth...



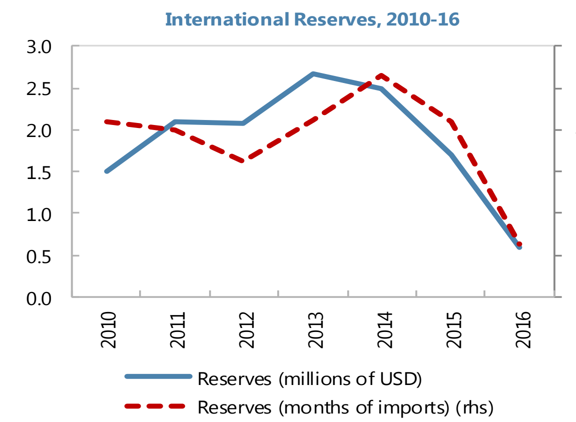
...and aside from a one-off increase in 2015, oil production has trended down.



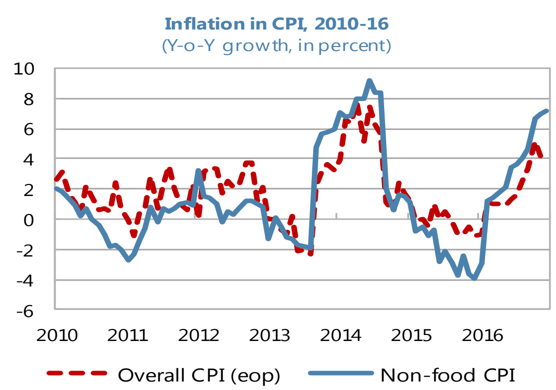
A large drop in exports, coupled with more modest import compression, led to a sharp deterioration in the current account balance ....



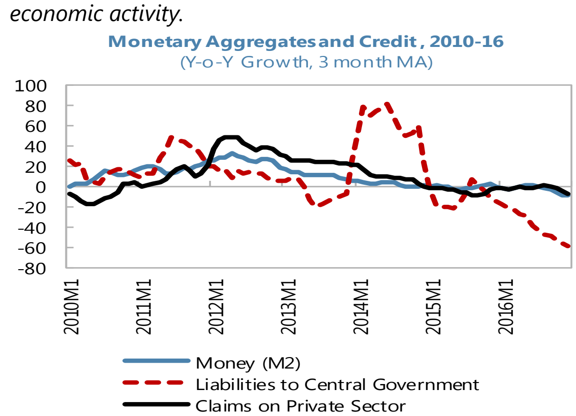
... which has contributed to a sharp decline in imputed international reserves at BEAC.



Inflation (y/y) picked up due to the pass-through of higher fuel prices, following the removal of most subsidies.



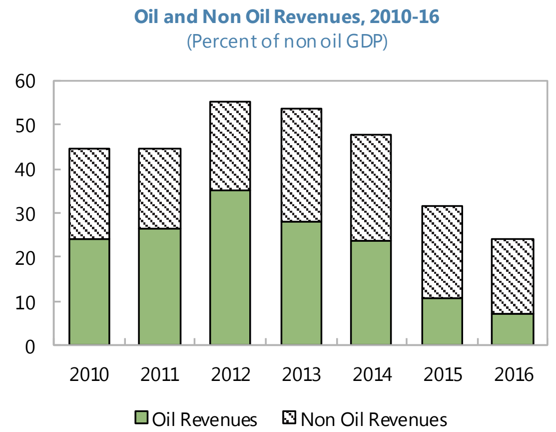
M2 and credit to the economy declined, reflecting weak economic activity.



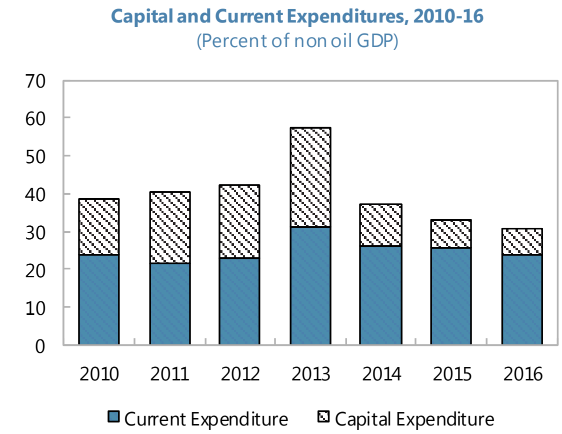
Sources: IMF and Gabonese Authorities.

Figure 2. Gabon: Fiscal Indicators, 2010–16

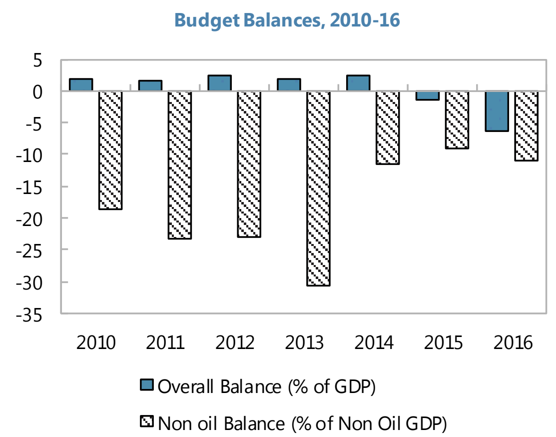
Oil revenues dropped sharply, due to the oil price shock …



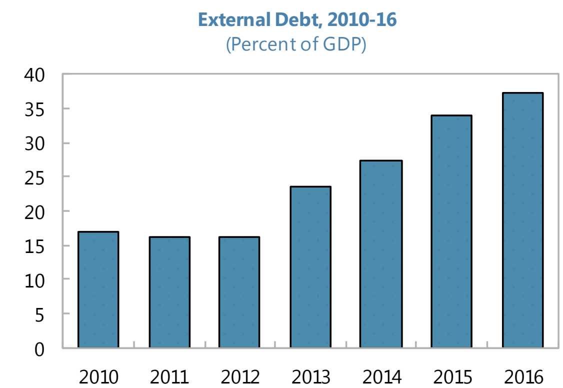
… triggering a need to reduce capital expenditure, though current spending remained broadly stable …



… and the overall fiscal deficit widened …



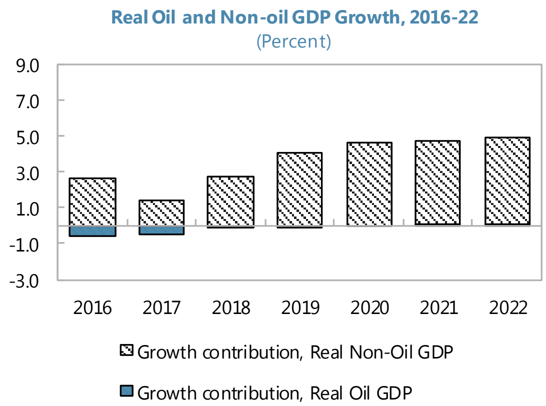
… alongside an increase in the stock of external debt.



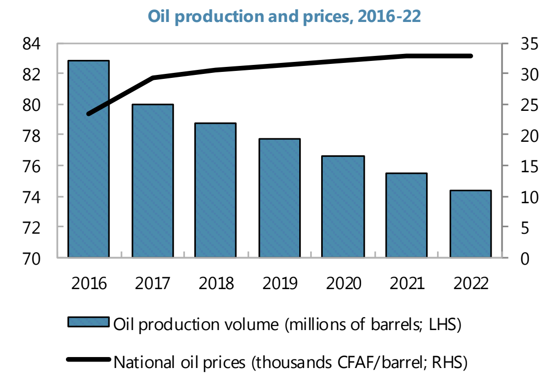
Sources: Gabonese authorities and IMF staff estimates.

Figure 3. Gabon: Medium-Term Outlook, 2016–22

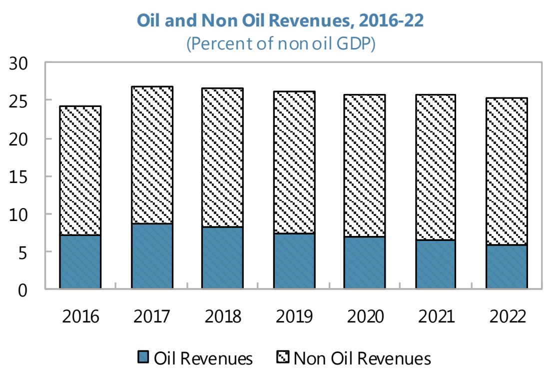
Overall growth will pick up in 2018, thanks to non-oil growth, especially in agriculture and related activities …



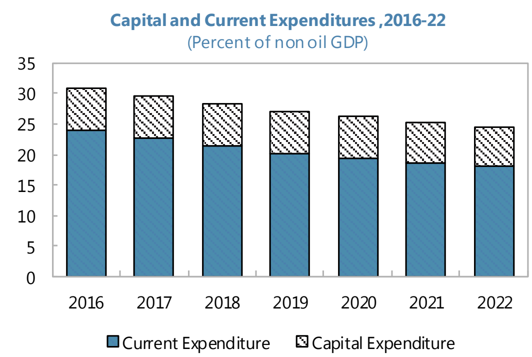
… but declining oil production will continue to weigh down on overall economic activity …



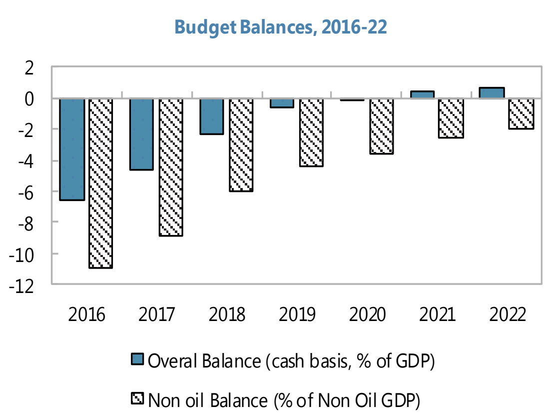
… limiting government revenues …



… and generating a need for substantial fiscal adjustment, especially in current spending …



… to contain the fiscal deficit …



… and support an adjustment in the external current account.

Sources: IMF and Gabonese Authorities.

Table 1. Gabon: Selected Economic Indicators, 2014–22

	2014	2015	2016	2017	2018	2019	2020	2021	2022
			Prel.	Proj.					
	(Annual percent change, unless otherwise indicated)								
Real sector									
GDP at constant prices	4.4	3.9	2.1	1.0	2.7	4.1	4.6	4.8	5.0
Oil	1.8	4.0	-2.7	-2.4	-0.4	0.0	0.2	0.7	0.7
o/w primary oil	-0.3	8.6	-3.7	-3.7	-1.8	-1.5	-1.5	-1.3	-1.5
Non-oil	5.1	3.8	3.3	1.7	3.3	5.0	5.5	5.5	5.8
GDP deflator	-1.0	-8.9	-4.3	2.5	0.6	1.5	1.0	1.4	1.6
Oil	-6.3	-20.2	-11.9	9.9	-0.1	-0.9	0.0	2.0	1.9
Primary oil	-6.4	-24.3	-16.1	16.3	-0.2	-2.0	-0.7	1.0	1.8
Consumer prices									
Yearly average	4.5	-0.1	2.1	2.5	2.5	2.5	2.5	2.5	2.5
End of period	1.7	-1.2	4.1	2.5	2.5	2.5	2.5	2.5	2.5
External sector									
Exports, f.o.b.	-8.5	-26.8	-19.2	23.3	1.5	3.1	10.6	7.6	7.3
Imports, f.o.b.	-6.7	-0.9	-21.4	20.7	-2.7	2.4	-0.2	0.6	3.8
Terms of trade (deterioration= –)	-9.2	-44.8	-10.0	23.5	-2.5	-3.9	-2.1	-1.0	-0.2
Central government finance									
Total revenue	-2.7	-32.8	-20.8	13.3	3.9	6.6	6.0	7.0	6.5
Oil revenue	-8.3	-54.4	-29.9	22.9	-1.8	-3.2	2.3	-0.3	0.3
Total expenditure	-29.1	-11.4	-4.0	4.3	-5.7	3.4	4.1	3.5	5.3
	(Percent of GDP, unless otherwise indicated)								
Non-oil primary balance (in percent of non-oil GDP)	-11.5	-9.0	-11.0	-8.9	-6.0	-4.3	-3.6	-2.5	-2.0
Overall balance (commitment basis)	6.0	-1.0	-5.0	-3.3	-1.2	-0.6	-0.3	0.4	0.6
Overall balance (cash basis)	2.3	-4.0	-6.6	-4.6	-2.3	-0.6	-0.2	0.4	0.6
Total public debt 1/	34.1	44.7	64.2	64.6	63.8	61.5	56.5	52.8	49.5
o/w statutory advances from BEAC	2.9	5.3	5.4	5.0	4.3	3.5	2.8	2.2	1.6
Gross national savings	43.4	29.3	24.1	24.6	26.1	27.5	30.5	32.1	33.3
Gross fixed investment	36.0	34.9	34.2	33.8	33.4	34.1	33.4	32.2	30.8
o/w private	29.3	29.9	29.3	28.9	28.4	29.1	28.4	27.2	25.8
public	6.7	5.0	4.9	4.9	5.0	5.0	5.0	5.0	5.0
Current account balance	7.3	-5.6	-10.1	-9.2	-7.3	-6.6	-2.8	0.0	2.4
excl. large agri-industry projects 2/	8.4	-3.6	-7.9	-6.5	-4.1	-3.7	-1.3	-0.1	1.5
Gross official reserves imputed to Gabon (in billions of US$)	2.49	1.69	0.63	0.89	1.14	1.53	1.87	2.14	2.44
Gross official reserves imputed to Gabon (months of imports)	5.3	4.2	1.4	1.9	2.6	3.3	4.0	4.5	5.1
	(CFA francs billion, unless otherwise indicated)								
Memorandum items									
Nominal GDP	8,988	8,503	8,311	8,598	8,880	9,378	9,910	10,528	11,229
Nominal non-oil GDP	5,581	5,676	5,885	5,995	6,289	6,812	7,339	7,886	8,518
National currency per U.S. Dollar (average)	494	591	593	..	..	..	..	..	..
Oil prices (WEO, U.S. Dollar/BBL)	96	51	43	55	55	54	54	54	55

Sources: Gabonese authorities and IMF staff estimates and projections.

1/ Starting in 2016, data series include the stock of domestic arrears.

2/ Current account excluding net trade changes related to large direct investment in the agri-industry sector.

Table 2. Gabon: Balance of Payments, 2014–22

	2014	2015	2016	2017	2018	2019	2020	2021	2022
			Prel.			Proj.			
					(Billions of CFAF)				
Current account	658	-475	-842	-790	-648	-623	-281	-2	265
Goods (net)	2,508	1,314	1,107	1,405	1,507	1,567	1,937	2,217	2,446
Export of goods (fob)	4,528	3,315	2,679	3,304	3,355	3,459	3,827	4,118	4,420
Hydrocarbons	3,800	2,494	1,941	2,285	2,244	2,172	2,221	2,214	2,220
Timber	234	293	335	423	459	502	603	723	868
Manganese	391	421	279	433	436	437	454	477	504
Other	103	108	125	162	215	349	549	704	828
Import of goods (fob)	-2,020	-2,001	-1,573	-1,899	-1,847	-1,893	-1,890	-1,902	-1,974
Petroleum sector	-227	-242	-227	-267	-262	-254	-250	-246	-242
Other	-1,793	-1,759	-1,346	-1,632	-1,585	-1,639	-1,639	-1,655	-1,731
Services (net)	-1,349	-932	-965	-1,122	-1,090	-1,147	-1,190	-1,184	-1,123
Exports	370	383	326	324	317	328	330	373	423
Imports	-1,719	-1,315	-1,291	-1,446	-1,407	-1,475	-1,520	-1,557	-1,546
Income (net)	-349	-713	-802	-889	-879	-856	-848	-852	-875
Current transfers (net)	-152	-143	-181	-185	-186	-188	-180	-182	-184
Capital account	0	0	0	0	0	0	0	0	0
Financial account	-746	248	212	343	385	570	453	171	-52
Direct investment (net)	540	587	746	872	913	1,016	873	655	677
Portfolio investments (net)	0	-23	0	0	0	0	0	0	0
Other investment assets and liabilities (net)	-1,286	-316	-534	-528	-528	-446	-420	-484	-729
Medium- and long-term transactions	45	192	-84	-164	78	-38	-47	-64	-114
o/w Net Arrears Accumulation			165	-165					
Short term transactions	-1,331	-508	-449	-364	-606	-407	-373	-420	-615
Errors and Omissions	0	0	0	0	0	0	0	0	0
Overall balance	-88	-226	-630	-447	-263	-53	172	169	213
Financing	88	226	630	447	263	53	-172	-169	-213
Bank of Central African States	88			-52	-39	-118	-172	-169	-213
Change in imputed reserves (- is an increase)	88	226	652	-170	-157	-236	-201	-164	-189
IMF-EFF flows				118	118	118	29	-5	-24
Financing Gap	0	0	0	499	303	171	0	0	0
Of which:									
Bilateral				49	49	49	0	0	0
Multilateral				450	253	122	0	0	0
Memorandum items:					(Percent of GDP)				
Current account	7.3	-5.6	-10.1	-9.2	-7.3	-6.6	-2.8	0.0	2.4
excl. large agri-industry projects 1/	8.4	-3.6	-7.9	-6.5	-4.1	-3.7	-1.3	-0.1	1.5
Oil	27.7	12.7	5.9	8.3	7.6	6.5	6.4	5.7	5.6
Non-oil	-20.3	-18.3	-16.1	-17.5	-14.9	-13.2	-9.2	-5.7	-3.2
Exports of goods and services	54.5	43.5	36.2	42.2	41.3	40.4	41.9	42.7	43.1
Imports of goods and services	-41.6	-39.0	-34.5	-38.9	-36.6	-35.9	-34.4	-32.9	-31.3
Capital and financial accounts	-8.3	2.9	2.3	9.8	7.7	7.9	4.6	1.6	-0.5
Foreign Direct Investment	6.0	6.9	9.0	10.1	10.3	10.8	8.8	6.2	6.0
Overall balance 2/	-1.0	-2.7	-7.9	0.6	0.4	1.3	1.7	1.6	1.9
					(Billions of CFAF, unless otherwise indicated)				
Gross official reserves imputed to Gabon 3/	1227.6	1001.1	371.2	541.2	698.2	934.0	1139.0	1302.5	1489.2

Sources: Gabonese authorities and IMF staff estimates and projections.

1/ Current account excluding net trade changes due to a large direct investment in the agri-industry sector.

2/ Overall balance line here reflects incorporation of budget support financing from Bilateral and Multilateral in their respective above the line items.

3/ Gross official reserves includes gold and SDRs.

Table 3a. Gabon: Central Government Accounts, 2014–22

	2014	2015	2016	2017	2018	2019	2020	2021	2022
			Prel.			Proj.			
				(Billion of CFA francs)					
Total revenue and grants	2,673	1,797	1,424	1,613	1,677	1,787	1,895	2,026	2,158
Revenue	2,673	1,797	1,424	1,613	1,677	1,787	1,895	2,026	2,158
Oil revenue	1,322	603	423	520	511	494	505	504	505
Non-oil revenue	1,351	1,194	1,001	1,093	1,166	1,293	1,389	1,523	1,652
Tax revenue	1,334	1,158	899	990	1,057	1,190	1,278	1,403	1,523
Taxes on income, profits, and capital gains	385	398	300	331	352	386	421	457	499
Domestic taxes on goods and services	374	167	223	237	256	297	340	386	436
Value-added tax	291	101	155	168	183	218	255	294	338
Other	83	66	68	69	73	79	85	91	99
Taxes on international trade and transactions	426	355	277	321	343	392	393	427	444
Import tariffs	404	331	266	302	324	371	371	403	419
Export taxes	21	24	11	19	19	20	22	24	26
Other non-oil taxes	150	239	99	101	106	115	124	133	144
Non-tax revenue	16	36	102	104	109	103	111	119	129
Grants	0	0	0	0	0	0	0	0	0
Total expenditure and net lending	2,135	1,879	1,833	1,893	1,786	1,846	1,923	1,989	2,094
Current expenditure	1,454	1,449	1,413	1,357	1,342	1,377	1,427	1,463	1,533
Wages and salaries	713	715	731	710	710	708	725	744	785
Goods and services	244	241	252	188	195	206	218	228	243
Interest payments	145	172	193	268	241	257	267	268	270
Domestic	26	44	61	75	78	76	72	72	72
Foreign	119	128	132	193	163	181	194	196	198
Transfers and subsidies	351	321	237	191	195	206	217	224	236
o/w: oil subsidies	115	80	27	0	0	0	0	0	0
Capital expenditure	607	423	405	421	444	469	495	526	561
Domestically financed	337	241	166	135	159	137	241	258	282
Foreign financed	270	183	239	286	285	332	254	269	279
Net lending	0	-13	25	0	0	0	0	0	0
Road Fund (FER) and special funds	37	18	19	15	0	0	0	0	0
Special accounts 1/	38	2	-29	100	0	0	0	0	0
Overall balance (commitment basis)	537	-82	-416	-280	-109	-59	-28	37	63
Adjustment to cash basis 2/	-326	-259	-133	-116	-96	0	13	3	5
Overall balance (cash basis)	211	-341	-549	-396	-205	-59	-15	40	68
Total financing	-211	341	549	396	205	59	15	-40	-68
Foreign borrowing (net)	71	196	142	-73	121	131	31	27	19
Drawings	256	183	239	286	285	332	254	269	279
Amortization	-185	-288	-244	-332	-164	-201	-223	-242	-569
Arrears (reduction = -)	0	5	147	-147	0	0	0	0	0
Rollover (Eurobonds)	0	296	0	120	0	0	0	0	309
Domestic borrowing	-47	204	450	-148	-337	-361	-45	-67	-87
Banking system (net)	100	284	543	61	-67	-174	-37	-116	-89
Nonbank financing (net) 3/	-147	-81	-93	-209	-270	-187	-8	49	2
Financing gap (+=deficit / - surplus)	-235	-59	-43	617	420	289	29	0	0
Exceptional financing (excluding IMF)	...	...	...	499	303	171	0	0	0
Residual gap	...	...	...	118	118	118	29	0	0
IMF-EFF	...	...	...	118	118	118	29	0	0
Memorandum items:									
Gross government deposits in BEAC	614.6	541.3	212.0	238.0	289.1	413.2	439.1	539.8	640.9
o/w Fund for Future Generations or Stabilization Fund	107.5	146.6	150.2	176.2	244.3	318.4	394.3	495.0	596.1
Statutory advances from BEAC	257.5	452.4	452.5	427.5	377.5	327.5	277.5	227.5	177.5
Stock of arrears 4/	...	...	803.3	360.4	173.9	87.0	0.0	0.0	0.0
External	...	...	164.6	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	...	...	638.6	360.4	173.9	87.0	0.0	0.0	0.0
VAT Reimbursement	...	...	347.8	260.9	173.9	87.0	0.0	0.0	0.0
Exceptional float 5/	...	...	248.8	99.5	0.0	0.0	0.0	0.0	0.0
Debt service	...	...	42.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-oil primary balance excluding capital transfers (NOPD)	-639	-513	-646	-533	-379	-296	-267	-199	-172
as percent of non-oil GDP	-11.5	-9.0	-11.0	-8.9	-6.0	-4.3	-3.6	-2.5	-2.0
Non-oil GDP at market prices	5,581	5,676	5,885	5,995	6,289	6,812	7,339	7,886	8,518

Source: Gabonese authorities and IMF staff estimates and projections.

1/ Includes net trasfers to special funds financed by earmarked revenues.

2/ Records cash expenditure on payment orders issued the previous year minus payment orders settled the next year.

3/ Includes bonds held by the non-bank sector, repayment of VAT reimbursement arrears, and securitization of previous extra-budgetary spending.

4/ The clearance of the exceptional float and interest arrears are classified as part of the adjustment to cash basis above the line, while all other clearance of arrears are recorded below the line.

5/ After 2017, exceptional float becomes zero and regular float cannot exceed 10 percent of the sum of current spending (excluding wages and interest) plus domestically-financed investment.

Table 3b. Gabon: Central Government Accounts, 2014–22

	2014	2015	2016	2017	2018	2019	2020	2021	2022
			Prel.			Proj.			
					(Percent of GDP)				
Total revenue and grants	29.7	21.1	17.1	18.8	18.9	19.1	19.1	19.2	19.2
Revenue	29.7	21.1	17.1	18.8	18.9	19.1	19.1	19.2	19.2
Oil revenue	14.7	7.1	5.1	6.0	5.8	5.3	5.1	4.8	4.5
Non-oil revenue	15.0	14.0	12.0	12.7	13.1	13.8	14.0	14.5	14.7
Tax revenue	14.8	13.6	10.8	11.5	11.9	12.7	12.9	13.3	13.6
Taxes on income, profits, and capital gains	4.3	4.7	3.6	3.8	4.0	4.1	4.2	4.3	4.4
Domestic taxes on goods and services	4.2	2.0	2.7	2.8	2.9	3.2	3.4	3.7	3.9
Taxes on international trade and transactions	4.7	4.2	3.3	3.7	3.9	4.2	4.0	4.1	4.0
Other non-oil taxes	1.7	2.8	1.2	1.2	1.2	1.2	1.3	1.3	1.3
Non-tax revenue	0.2	0.4	1.2	1.2	1.2	1.1	1.1	1.1	1.1
Total expenditure and net lending	23.8	22.1	22.1	22.0	20.1	19.7	19.4	18.9	18.7
Current expenditure	16.2	17.0	17.0	15.8	15.1	14.7	14.4	13.9	13.7
Wages and salaries	7.9	8.4	8.8	8.3	8.0	7.5	7.3	7.1	7.0
Goods and services	2.7	2.8	3.0	2.2	2.2	2.2	2.2	2.2	2.2
Interest payments	1.6	2.0	2.3	3.1	2.7	2.7	2.7	2.5	2.4
Transfers and subsidies	3.9	3.8	2.9	2.2	2.2	2.2	2.2	2.1	2.1
o/w: oil subsidies	1.3	0.9	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	6.7	5.0	4.9	4.9	5.0	5.0	5.0	5.0	5.0
Domestically financed	3.7	2.8	2.0	1.6	1.8	1.5	2.4	2.4	2.5
Foreign financed	3.0	2.1	2.9	3.3	3.2	3.5	2.6	2.6	2.5
Net lending	0.0	-0.2	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Road Fund (FER) and special funds	0.4	0.2	0.2	0.2	0.0	0.0	0.0	0.0	0.0
Special accounts 1/	0.4	0.0	-0.3	1.2	0.0	0.0	0.0	0.0	0.0
Overall balance (commitment basis)	6.0	-1.0	-5.0	-3.3	-1.2	-0.6	-0.3	0.4	0.6
Adjustment to cash basis 2/	-3.6	-3.0	-1.6	-1.3	-1.1	0.0	0.1	0.0	0.0
Overall balance (cash basis)	2.3	-4.0	-6.6	-4.6	-2.3	-0.6	-0.2	0.4	0.6
Total financing	-2.3	4.0	6.6	4.6	2.3	0.6	0.2	-0.4	-0.6
Foreign borrowing (net)	0.8	2.3	1.7	-0.9	1.4	1.4	0.3	0.3	0.2
Drawings	2.9	2.1	2.9	3.3	3.2	3.5	2.6	2.6	2.5
Amortization	-2.1	-3.4	-2.9	-3.9	-1.8	-2.1	-2.3	-2.3	-5.1
Arrears (reduction = -)	0.0	0.1	1.8	-1.7	0.0	0.0	0.0	0.0	0.0
Rollover (Eurobonds)	0.0	3.5	0.0	1.4	0.0	0.0	0.0	0.0	2.7
Domestic borrowing (net)	-0.5	2.4	5.4	-1.7	-3.8	-3.8	-0.5	-0.6	-0.8
Banking system	1.1	3.3	6.5	0.7	-0.8	-1.9	-0.4	-1.1	-0.8
Non-bank sector 3/	-1.6	-0.9	-1.1	-2.4	-3.0	-2.0	-0.1	0.5	0.0
Financing gap (+=deficit / - surplus)	-2.6	-0.7	-0.5	7.2	4.7	3.1	0.3	0.0	0.0
Exceptional financing (excluding IMF)	...	...	...	5.8	3.4	1.8	0.0	0.0	0.0
Residual gap	...	...	...	1.4	1.3	1.3	0.3	0.0	0.0
IMF-EFF	...	...	...	1.4	1.3	1.3	0.3	0.0	0.0
				(Billion of CFA francs, unless otherwise indicated)					
Total revenue and grants	2,673	1,797	1,424	1,613	1,677	1,787	1,895	2,026	2,158
Total expenditure and net lending	2,135	1,879	1,840	1,893	1,786	1,846	1,923	1,989	2,094
Overall balance	537	-82	-416	-280	-109	-59	-28	37	63
Memorandum items:									
Gross government deposits in BEAC (percent of GDP)	7.2	6.3	2.4	2.5	2.9	3.9	3.9	4.5	5.1
o/w Fund for Future Generations or Stabilization Fund	1.3	1.7	1.7	1.9	2.5	3.0	3.5	4.1	4.8
Non-oil primary balance excluding capital transfers	-639	-513	-646	-533	-379	-296	-267	-199	-172
As percent of non-oil GDP	-11.5	-9.0	-11.0	-8.9	-6.0	-4.3	-3.6	-2.5	-2.0
Public debt (percent of GDP)	34.1	44.7	64.2	64.6	63.8	61.5	56.5	52.8	49.5
External debt (percent of GDP)	27.3	33.9	37.4	41.8	46.4	48.0	45.8	43.2	40.6
Domestic debt (percent of GDP)	6.8	10.8	26.8	22.8	17.4	13.5	10.7	9.6	8.9
o/w Statutory advances from BEAC	2.9	5.3	5.4	5.0	4.3	3.5	2.8	2.2	1.6
Stock of arrears 4/	...	...	9.7	4.2	2.0	0.9	0.0	0.0	0.0
External	...	...	2.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	...	...	7.7	4.2	2.0	0.9	0.0	0.0	0.0
VAT Reimbursement	...	...	4.2	3.0	2.0	0.9	0.0	0.0	0.0
Exceptional float 5/	...	...	3.0	1.2	0.0	0.0	0.0	0.0	0.0
Debt service	...	...	0.5	0.0	0.0	0.0	0.0	0.0	0.0
GDP at market prices	8,988	8,503	8,311	8,598	8,880	9,378	9,910	10,528	11,229

Sources: Gabonese authorities and IMF staff estimates and projections.

1/ Includes net trasfers to special funds financed by earmarked revenues.

2/ Records cash expenditure on payment orders issued the previous year minus payment orders settled the next year.

3/ Includes bonds held by the non-bank sector, repayment of VAT reimbursement arrears, and securitization of previous extra-budgetary spending.

4/ The clearance of the exceptional float and interest arrears are classified as part of the adjustment to cash basis above the line, while all other clearance of arrears are recorded below the line.

5/ After 2017, exceptional float becomes zero and regular float cannot exceed 10 percent of the sum of current spending (excluding wages and interest) plus domestically-financed investment.

Table 3c. Gabon: Central Government Accounts, 2014–22

	2014	2015	2016	2017	2018	2019	2020	2021	2022
			Prel.			Proj.			
					(Percent of non-oil GDP)				
Total revenue and grants	47.9	31.7	24.2	26.9	26.7	26.2	25.8	25.7	25.3
Revenue	47.9	31.7	24.2	26.9	26.7	26.2	25.8	25.7	25.3
Oil revenue	23.7	10.6	7.2	8.7	8.1	7.3	6.9	6.4	5.9
Non-oil revenue	24.2	21.0	17.0	18.2	18.5	19.0	18.9	19.3	19.4
Tax revenue	23.9	20.4	15.3	16.5	16.8	17.5	17.4	17.8	17.9
Taxes on income, profits, and capital gains	6.9	7.0	5.1	5.5	5.6	5.7	5.7	5.8	5.9
Domestic taxes on goods and services	6.7	2.9	3.8	4.0	4.1	4.4	4.6	4.9	5.1
Taxes on international trade and transactions	7.6	6.3	4.7	5.4	5.5	5.7	5.4	5.4	5.2
Other non-oil taxes	2.7	4.2	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Non-tax revenue	0.3	0.6	1.7	1.7	1.7	1.5	1.5	1.5	1.5
Total expenditure and net lending	38.3	33.1	31.2	31.6	28.4	27.1	26.2	25.2	24.6
Current expenditure	26.0	25.5	24.0	22.6	21.3	20.2	19.4	18.6	18.0
Wages and salaries	12.8	12.6	12.4	11.8	11.3	10.4	9.9	9.4	9.2
Goods and services	4.4	4.2	4.3	3.1	3.1	3.0	3.0	2.9	2.8
Interest payments	2.6	3.0	3.3	4.5	3.8	3.8	3.6	3.4	3.2
Transfers and subsidies	6.3	5.7	4.0	3.2	3.1	3.0	3.0	2.8	2.8
o/w: oil subsidies	2.1	1.4	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	10.9	7.5	6.9	7.0	7.1	6.9	6.8	6.7	6.6
Domestically financed	6.0	4.2	2.8	2.3	2.5	2.0	3.3	3.3	3.3
Foreign financed	4.8	3.2	4.1	4.8	4.5	4.9	3.5	3.4	3.3
Net lending	0.0	-0.2	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Road Fund (FER) and special funds	0.7	0.3	0.3	0.3	0.0	0.0	0.0	0.0	0.0
Special accounts 1/	0.7	0.0	-0.5	1.7	0.0	0.0	0.0	0.0	0.0
Overall balance (commitment basis)	9.6	-1.4	-7.1	-4.7	-1.7	-0.9	-0.4	0.5	0.7
Adjustment to cash basis 2/	-5.8	-4.6	-2.3	-1.9	-1.5	0.0	0.2	0.0	0.1
Overall balance (cash basis)	3.8	-6.0	-9.3	-6.6	-3.3	-0.9	-0.2	0.5	0.8
Total financing	-3.8	6.0	9.3	6.6	3.3	0.9	0.2	-0.5	-0.8
Foreign borrowing (net)	1.3	3.5	2.4	-1.2	1.9	1.9	0.4	0.3	0.2
Drawings	4.6	3.2	4.1	4.8	4.5	4.9	3.5	3.4	3.3
Amortization	-3.3	-5.1	-4.1	-5.5	-2.6	-3.0	-3.0	-3.1	-6.7
Arrears (reduction = -)	0.0	0.1	2.5	-2.4	0.0	0.0	0.0	0.0	0.0
Rollover (Eurobonds)	0.0	5.2	0.0	2.0	0.0	0.0	0.0	0.0	3.6
Domestic borrowing	-0.8	3.6	7.7	-2.5	-5.4	-5.3	-0.6	-0.8	-1.0
Bank financing (net)	1.8	5.0	9.2	1.0	-1.1	-2.6	-0.5	-1.5	-1.0
Nonbank financing (net) 3/	-2.6	-1.4	-1.6	-3.5	-4.3	-2.7	-0.1	0.6	0.0
Financing gap (+=deficit / - surplus)	-4.2	-1.0	-0.7	10.3	6.7	4.2	0.4	0.0	0.0
Exceptional financing (excluding IMF)				8.3	4.8	2.5	0.0	0.0	0.0
Residual gap				2.0	1.9	1.7	0.4	0.0	0.0
IMF-EFF				2.0	1.9	1.7	0.4	0.0	0.0
				(Billion of CFA francs, unless otherwise indicated)					
Total revenue and grants	2,673	1,797	1,424	1,613	1,677	1,787	1,895	2,026	2,158
Total expenditure and net lending	2,135	1,879	1,840	1,893	1,786	1,846	1,923	1,989	2,094
Overall balance	537	-82	-416	-280	-109	-59	-28	37	63
Memorandum items:									
Gross government deposits in BEAC (percent of non-oil GDP)	7.2	6.3	2.4	2.5	2.9	3.9	3.9	4.5	5.1
o/w Fund for Future Generations or Stabilization Fund	1.3	1.7	1.7	1.9	2.5	3.0	3.5	4.1	4.8
Overall balance (percent of GDP)	6.0	-1.0	-5.0	-3.3	-1.2	-0.6	-0.3	0.4	0.6
Non-oil primary balance excluding capital transfers	-639	-513	-646	-533	-379	-296	-267	-199	-172
As percent of non-oil GDP	-11.5	-9.0	-11.0	-8.9	-6.0	-4.3	-3.6	-2.5	-2.0
Public debt (percent of GDP)	34.1	44.7	64.2	64.6	63.8	61.5	56.5	52.8	49.5
External debt (percent of GDP)	27.3	33.9	37.4	41.8	46.4	48.0	45.8	43.2	40.6
Domestic debt (percent of GDP)	6.8	10.8	26.8	22.8	17.4	13.5	10.7	9.6	8.9
o/w Statutory advances from BEAC	2.9	5.3	5.4	5.0	4.3	3.5	2.8	2.2	1.6
Stock of arrears 4/	...	...	13.6	6.0	2.8	1.3	0.0	0.0	0.0
External	...	...	2.8	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	...	...	10.9	6.0	2.8	1.3	0.0	0.0	0.0
VAT Reimbursement	...	...	5.9	4.4	2.8	1.3	0.0	0.0	0.0
Exceptional float 5/	...	...	4.2	1.7	0.0	0.0	0.0	0.0	0.0
Debt service	...	...	0.7	0.0	0.0	0.0	0.0	0.0	0.0
Non-oil GDP at market prices	5,581	5,676	5,885	5,995	6,289	6,812	7,339	7,886	8,518

Sources: Gabonese authorities and IMF staff estimates and projections.

1/ Includes net trasfers to special funds financed by earmarked revenues.

2/ Records cash expenditure on payment orders issued the previous year minus payment orders settled the next year.

3/ Includes bonds held by the non-bank sector, repayment of VAT reimbursement arrears, and securitization of previous extra-budgetary spending.

4/ The clearance of the exceptional float and interest arrears are classified as part of the adjustment to cash basis above the line, while all other clearance of arrears are recorded below the line.

5/ After 2017, exceptional float becomes zero and regular float cannot exceed 10 percent of the sum of current spending (excluding wages and interest) plus domestically-financed investment.

Table 4a. Gabon: Financing of the Fiscal Deficit, 2017–22

	2017	2018	2019	2020	2021	2022
			Proj.			
			(In billions of CFA Francs)			
A. Overall fiscal deficit (cash basis)	396.1	205.1	58.8	15.2	-40.4	-68.4
B. Other financing needs	847.8	618.5	669.7	587.2	534.3	888.7
Amortization (including arrears)	637.9	430.5	408.6	424.4	383.6	737.6
External	478.9	163.8	201.0	223.3	242.3	569.4
Amortization due	332.3	163.8	201.0	223.3	242.3	569.4
Arrears on amortization	146.6	0.0	0.0	0.0	0.0	0.0
Domestic	159.0	266.7	207.6	201.0	141.3	168.2
T-bills redemption	93.5	135.5	126.8	145.3	141.3	168.2
Moratorium debt	56.4	125.4	78.4	53.3	0.0	0.0
Other	9.1	5.8	2.5	2.5	0.0	0.0
BEAC	51.0	101.1	174.2	75.8	150.8	151.0
Repayment of statutory advances	25.0	50.0	50.0	50.0	50.0	50.0
Other deposits	26.0	51.1	124.2	25.8	100.8	101.0
Repayment of VAT Arrears	87.0	87.0	87.0	87.0	0.0	0.0
Other (includes restructuring costs)	30.0	0.0	0.0	0.0	0.0	0.0
Arrears on domestic amortization (reduction)	41.9	0.0	0.0	0.0	0.0	0.0
C=A+B Total financing needs	1243.9	823.6	728.5	602.3	493.9	820.3
D. Identified sources of financing	626.9	403.1	439.7	572.9	493.9	820.3
External	405.8	285.1	331.6	254.4	268.8	588.1
Project financing (ext.)	286.0	285.1	331.6	254.4	268.8	279.4
Eurobond rollover (ext.)	119.8	0.0	0.0	0.0	0.0	308.7
Domestic	221.1	118.0	108.1	318.5	225.1	232.2
T-bill issuance	142.0	88.9	79.0	136.1	149.3	203.1
Privatization receipts	50.0	0.0	0.0	153.3	46.7	0.0
Recovery of domestic tax arrears	29.1	29.1	29.1	29.1	29.1	29.1
E=C-D Financing gap	617.0	420.5	288.8	29.4	0.0	0.0
F. Exceptional external financing	499.1	302.5	171.1	0.0	0.0	0.0
Multilateral	449.9	253.3	121.9	0.0	0.0	0.0
Bilateral	49.2	49.2	49.2	0.0	0.0	0.0
E-F Residual financing needs	117.86	117.92	117.67	29.41	0.00	0.00
IMF-EFF	117.86	117.92	117.67	29.41	0.00	0.00

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

Table 4b. Gabon: Financing of the Fiscal Deficit, 2017–22

	2017	2018	2019	2020	2021	2022
			Proj.			
			(Percent of GDP)			
A. Overall fiscal deficit (cash basis)	4.6	2.3	0.6	0.2	-0.4	-0.6
B. Other financing needs	9.9	7.0	7.1	5.9	5.1	7.9
Amortization (including arrears)	7.4	4.8	4.4	4.3	3.6	6.6
External	5.6	1.8	2.1	2.3	2.3	5.1
Amortization due	3.9	1.8	2.1	2.3	2.3	5.1
Arrears on amortization (reduction)	1.7	0.0	0.0	0.0	0.0	0.0
Domestic	1.8	3.0	2.2	2.0	1.3	1.5
T-bills redemption	1.1	1.5	1.4	1.5	1.3	1.5
Moratorium debt	0.7	1.4	0.8	0.5	0.0	0.0
Other	0.1	0.1	0.0	0.0	0.0	0.0
BEAC	0.6	1.1	1.9	0.8	1.4	1.3
Repayment of statutory advances	0.3	0.6	0.5	0.5	0.5	0.4
Other deposits	0.3	0.6	1.3	0.3	1.0	0.9
Repayment of VAT Arrears	1.0	1.0	0.9	0.9	0.0	0.0
Other (includes restructuring costs)	0.3	0.0	0.0	0.0	0.0	0.0
Arrears on domestic amortization	0.5	0.0	0.0	0.0	0.0	0.0
C=A+B Total financing needs	14.5	9.3	7.8	6.1	4.7	7.3
D. Identified sources of financing	7.3	4.5	4.7	5.8	4.7	7.3
External	4.7	3.2	3.5	2.6	2.6	5.2
Project financing (ext.)	3.3	3.2	3.5	2.6	2.6	2.5
Eurobond rollover (ext.)	1.4	0.0	0.0	0.0	0.0	2.7
Domestic	2.6	1.3	1.2	3.2	2.1	2.1
T-bill issuance	1.7	1.0	0.8	1.4	1.4	1.8
Privatization receipts	0.6	0.0	0.0	1.5	0.4	0.0
Recovery of domestic tax arrears	0.3	0.3	0.3	0.3	0.3	0.3
E=C-D Financing gap	7.2	4.7	3.1	0.3	0.0	0.0
F. Exceptional external financing	5.8	3.4	1.8	0.0	0.0	0.0
Multilateral	5.2	2.9	1.3	0.0	0.0	0.0
Bilateral	0.6	0.6	0.5	0.0	0.0	0.0
E-F Residual financing needs	1.4	1.3	1.3	0.3	0.0	0.0
IMF-EFF	1.4	1.3	1.3	0.3	0.0	0.0

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

Table 5. Gabon: Monetary Survey, 2014–22

	2014	2015	2016	2017				2018				2019	2020	2021	2022
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
	(Billion of CFA francs, unless otherwise indicated)														
Net foreign assets	1314	1119	460	457	471	499	512	552	430	469	552	670	842	1001	1165
Bank of Central African States (BEAC)	1228	1001	371	343	355	382	423	463	341	380	462	581	752	911	1076
Foreign assets	1353	1131	500	472	543	570	670	710	765	804	827	1063	1264	1428	1617
Foreign liabilities	-126	-130	-129	-129	-188	-188	-247	-247	-424	-424	-365	-483	-512	-517	-541
o/w: IMF credit	0	0	0	0	59	59	118	118	177	177	236	353	383	378	354
Deposit money banks (DMBs)	86	118	89	114	116	117	89	89	89	89	89	89	89	89	89
Foreign assets	176	287	314	339	341	342	314	314	314	314	314	314	314	314	314
Foreign liabilities	-90	-170	-225	-225	-225	-225	-225	-225	-225	-225	-225	-225	-225	-225	-225
Net domestic assets	878	1147	1579	1485	1666	1680	1695	1688	1776	1783	1786	1835	1972	1978	2052
Domestic credit	1133	1322	1659	1565	1745	1760	1775	1767	1856	1863	1866	1915	2052	2058	2132
Claims on general government (net)	-171	73	593	541	743	762	772	753	853	835	823	767	760	639	525
Claims on central government (net)	-150	143	574	521	724	743	753	734	834	816	804	748	740	620	506
BEAC, Claims on central government (net)	-357	-79	241	241	300	300	308	308	367	350	324	268	222	66	-110
BEAC, Claims on central government	258	453	453	453	512	512	546	546	605	605	614	681	661	606	531
Statutory advances	258	452	453	453	453	453	428	428	428	428	378	328	278	228	178
Use of IMF credit	0	0	0	0	59	59	118	118	177	177	236	353	383	378	354
Other	0.2	0.4	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Liabilities to central government	-615	-541	-212	-212	-212	-212	-238	-238	-238	-255	-289	-413	-439	-540	-641
Fund for Future Generations/Sovereign Wealth Fund	-108	-147	-150	-150	-150	-150	-176	-176	-176	-193	-244	-318	-394	-495	-596
Other CG deposits and vault cash	-507	-395	-62	-62	-62	-62	-62	-62	-62	-62	-45	-95	-45	-45	-45
Deposit money banks (net)	207	223	333	281	425	443	445	427	467	466	480	480	519	554	616
Claims on central government	421	412	626	573	717	735	737	719	759	758	772	772	811	846	908
Liabilities to central government	-214	-189	-292	-292	-292	-292	-292	-292	-292	-292	-292	-292	-292	-292	-292
Claims on public agencies (net)	-21	-71	19	19	19	19	19	19	19	19	19	19	19	19	19
Claims on nongovernment (net)	1304	1182	1065	1024	1002	998	1003	1014	1003	1028	1043	1148	1292	1419	1606
Other items (net)	-256	-176	-80	-80	-80	-80	-80	-80	-80	-80	-80	-80	-80	-80	-80
Broad money (M2)	2192	2180	2026	1942	2136	2179	2208	2239	2206	2252	2338	2505	2813	2979	3217
Currency	402	370	355	340	374	381	391	411	412	421	422	452	469	496	536
Deposits	1789	1810	1684	1602	1762	1798	1817	1828	1793	1831	1916	2053	2344	2482	2680
Memorandum items:	(Annual percentage change, unless otherwise indicated)														
Broad money (M2)	1.6	-0.5	-7.0	-11.8	-2.2	3.9	9.0	15.3	3.2	3.4	5.9	7.1	12.3	5.9	8.0
Reserve money	5.3	6.9	-27.8	-16.7	-12.5	-4.1	17.3	28.4	7.3	6.3	6.9	7.1	13.6	0.3	-1.1
Credit to the economy	-2.0	-9.8	-10.0	-10.9	-9.2	-7.0	-5.8	-1.0	0.1	3.0	3.9	10.2	12.8	9.9	13.4
Credit to the private sector (in percent of non-oil GDP)	22.6	20.0	17.4	…	…	…	16.0	…	…	…	15.9	16.2	16.9	17.3	18.2
Broad money (in percent of overall GDP)	24.4	25.6	24.4	…	…	…	25.7	…	…	…	26.3	26.7	28.4	28.3	28.6
Velocity (Non-oil GDP/average M2)	2.5	2.6	2.8	3.0	2.9	2.9	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.7	2.7

Sources: Gabonese authorities and IMF staff estimates and projections.

Table 6. Gabon: Financial Soundness Indicators for the Banking Sector, 2010–16

(Percent)

	2010	2011	2012	2013	2014	2015	2016
Capital							
Regulatory capital to risk-weighted assets[1, 2]	24.7	12.9	10.9	12.3	9.4	8.3	8.1
Asset quality							
Non-performing loans (gross) to total loans (gross)	3.2	2.8	2.5	2.7	4.1	5.3	6.6
Non-performing loans less provisions to regulatory capital	1.9	-5.0	-2.6	-0.5	0.3	12.9	17.3
Earnings and profitability							
Return on equity	15.5	24.8	23.3	19.6	21.5	13.5	-
Return on assets[3]	2.9	2.7	2.3	1.9	2.1	1.3	-
Liquidity							
Ratio of liquid assets to short-term liabilities	158.5	129.5	143.2	125.2	112.9	148.3	134.0
Total deposits to total (noninterbank) loans	114.7	122.6	115.9	108.6	105.5	113.8	108.4

Source: Banking Commission of Central Africa (COBAC).

1 Current year profits are excluded from the definition of regulatory capital, following the Basel I capital accord guidelines. General provisions are included in Tier 2 capital up to an amount equal to 1.25% of risk-weighted assets. Regulatory capital is the sum of Tier 1 capital, and the minimum of Tier 1 and Tier 2 capital.

2 The risk-weighted assets are estimated using the following risk weights: 0% - cash reserves in domestic and foreign currency and claims on the central bank; 100% - all other assets.

3 The ratio of after-tax profits to the average of beginning and end-period total assets.

Table 7. Gabon: Indicators of Capacity to Repay the Fund, 2016–30

		Projection													
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Fund obligations based on existing credit (in millions of SDRs)															
Principal	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Charges and interest	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Fund obligations based on existing and prospective credit (in millions of SDRs)															
Principal	0.0	0.0	0.0	0.0	0.0	6.0	29.8	53.6	74.4	77.4	77.4	71.5	47.6	23.8	3.0
Charges and interest	0.0	1.2	3.3	5.4	7.6	8.1	7.7	6.6	5.4	4.3	3.2	2.1	1.1	0.5	0.2
Total obligations based on existing and prospective credit															
In millions of SDRs	0.0	1.2	3.3	5.4	7.6	14.1	37.5	60.1	79.9	81.7	80.6	73.5	48.7	24.3	3.2
In millions of US$	0.0	1.7	4.5	7.3	10.2	19.0	50.5	81.1	107.6	110.2	108.6	99.1	65.7	32.7	4.3
In percent of exports of goods and services	0.0	0.0	0.1	0.1	0.1	0.3	0.6	1.0	1.3	1.3	1.2	1.1	0.7	0.3	0.0
In percent of debt service 1/	0.0	0.2	1.3	1.8	1.7	2.8	7.2	10.3	12.9	13.3	13.3	12.3	8.7	3.8	0.5
In percent of GDP	0.0	0.0	0.0	0.0	0.1	0.1	0.3	0.4	0.5	0.5	0.5	0.4	0.3	0.1	0.0
In percent of Gross International Reserves	0.0	0.2	0.4	0.5	0.5	0.9	2.1	3.1	3.8	3.7	3.4	2.9	1.8	0.8	0.1
In percent of quota	0.0	0.6	1.5	2.5	3.5	6.5	17.4	27.8	37.0	37.8	37.3	34.0	22.6	11.2	1.5
Outstanding Fund credit															
In millions of SDRs	0.0	142.9	285.7	428.6	464.4	458.5	428.7	375.1	300.7	223.3	145.9	74.5	26.8	3.0	0.0
In millions of US$	0.0	193.3	386.1	579.2	627.6	619.0	577.8	505.6	405.3	301.0	196.7	100.4	36.1	4.0	0.0
In percent of exports of goods and services	0.0	3.2	6.4	9.3	9.2	8.4	7.3	6.3	4.9	3.5	2.2	1.1	0.4	0.0	0.0
In percent of debt service	0.0	27.2	111.6	139.8	104.1	90.7	82.2	64.2	48.6	36.4	24.1	12.5	4.8	0.5	0.0
In percent of GDP	0.0	1.4	2.7	3.8	3.8	3.6	3.1	2.6	2.0	1.4	0.9	0.4	0.1	0.0	0.0
In percent of Gross International Reserves	0.0	21.8	33.8	37.8	33.6	29.0	23.6	19.3	14.4	10.1	6.2	3.0	1.0	0.1	0.0
In percent of quota	0.0	66.1	132.3	198.4	215.0	212.2	198.5	173.7	139.2	103.4	67.5	34.5	12.4	1.4	0.0
Net use of Fund credit (in millions of SDRs)	0.0	143.0	143.0	143.0	35.9	-6.0	-29.8	-53.6	-74.4	-77.4	-77.4	-71.5	-47.6	-23.8	-3.0
Disbursements	0.0	142.9	142.9	142.9	35.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	0.0	-0.1	-0.1	-0.1	0.0	6.0	29.8	53.6	74.4	77.4	77.4	71.5	47.6	23.8	3.0
Memorandum items:															
Exports of goods and services (in millions of US$)	5,070	5,951	6,011	6,214	6,842	7,388	7,954	8,047	8,285	8,607	8,879	9,133	9,465	9,830	10,237
Debt service (in millions of US$)	633	712	346	414	603	682	703	788	834	827	817	805	754	852	810
Nominal GDP (in millions of US$)	14,021	14,101	14,538	15,387	16,313	17,319	18,441	19,258	20,162	21,317	22,557	23,869	25,259	26,734	28,301
Gross Official Reserves Imputed to Gabon (in millions of US$)	626	888	1,143	1,532	1,869	2,137	2,444	2,615	2,805	2,991	3,177	3,371	3,596	3,854	4,141
Quota (millions of SDRs)	216	216	216	216	216	216	216	216	216	216	216	216	216	216	216

Source: IMF staff estimates and projections.

1/ Total debt service includes IMF repayments.

Table 8. Gabon: Proposed Schedule of Disbursements and Timing of Reviews Under the Extended Arrangement, 2017–20

Date of availability	Condition for disbursement	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 PCs for end-June 2017, continuous PCs and completion of the first review.	71.430	96.649	33.069
June 1, 2018	Observance of PCs for end-December 2017, continuous PCs and completion of second review.	71.430	96.649	33.069
December 1, 2018	Observance of PCs for end-June 2018, continuous PCs and completion of third review.	71.430	96.649	33.069
June 1, 2019	Observance of PCs for end-December 2018, continuous PCs and completion of fourth review.	71.430	96.649	33.069
December 1, 2019	Observance of PCs for end-June 2019, continuous PCs and completion of fifth review.	71.430	96.649	33.069
April 30, 2020	Observance of PCs for end-December 2019, continuous PCs and completion of sixth review.	35.820	48.467	16.583
	Total	464.400	628.362	215.000

Source: IMF staff projections.
1/ Gabon's quota is SDR 216.0 million.

Annex I. Gabon's New Sources of Growth

This Annex reviews Gabon's diversification strategy, with a special focus on new sources of growth that could help reduce the country's dependence on the oil sector. The diversification strategy is crucial in three distinct ways. First, it can help boost Gabon's growth rate back to 4–5 percent despite the weak prospects for the oil sector. Without new sources of growth, the permanent shock to oil prices and declining production would probably result in a potential growth rate of only 2-3 percent. Second, with its focus on agriculture and agribusiness, the new growth sectors can reduce the country's dependence on imports and boost exports, thereby helping restore external stability. Finally, the new sectors can create positive externalities in other sectors of the economy and help Gabon in its efforts to pursue structural transformation.

1. Gabon "Emergent". In 2011, Gabon launched a comprehensive economic development program, called *Plan Stratégique Gabon Emergent* (Strategic Plan for Emerging Gabon), setting out an ambitious reform agenda to wean the country from its high dependence on oil extraction and catalyze structural transformation. The program covers a wide array of sectoral plans, but at its core seeks to take advantage of Gabon's abundant natural resources (including mining, fisheries, forestry, and agriculture) and to strengthen its human and physical infrastructure.

2. Progress to date. During its first phase, Gabon Emergent has focused on addressing bottlenecks in the areas of transport, telecommunications, and energy, as well as strengthening local processing of raw materials (wood, minerals, etc.). A distinguishing feature of Gabon's strategy plan has been its increased use of public-private partnerships to leverage private expertise. As noted in previous IMF Article IV consultation reports, Bechtel, an American engineering corporation with a long track record in administering large investment projects was engaged to implement the national master plan for infrastructure and continues to be involved with the management of the public works agency. Gabon has also sought to attract foreign direct investment into key sectors identified under the development plan, helped by the establishment of special economic zones (SEZs) involving generous tax incentives and exemptions. The largest such partner operator is Olam International, a Singapore-based agri-business firm with 2015 sales revenues of US$13.4 billion. It is 52.3 percent owned by Temasek Holdings (Singapore's state-owned holding company) and 20.3 percent by the Mitsubishi Corporation. Its Gabon activities are part of a larger company initiative to build integrated valued chains in Africa as a potentially globally competitive supply source. Regarding local processing of raw materials, the Government has initiated reforms aimed at developing industries in the mining, energy, and agricultural sectors.

3. Mining. Gabon hosts extensive manganese deposits, but until 2010 only one operator was active in the country (*Compagnie Minière de l'Ogooué*, or COMILOG). Since then, the authorities have attracted new operators to the sector. China's Huanzhou Industrial and Commercial Mining Company (CICMHZ) started production in 2012 at the M'bembélé deposit, which holds reserves of 30 million tons. More recently, New Gabon Mining (a subsidiary of India's COALSALE Group) has constructed an enrichment plan with a capacity of 324,000 tons per year and began production in

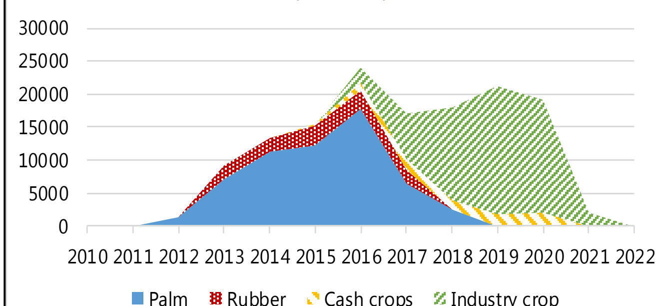
2016. The total resources of this latter deposit are estimated at 150 million tons and the life of the mine is expected to reach 20 years.

4. Energy. Since 2010, several energy installations have been constructed via public-private investments: Grand Poubara dam, Alénakiri thermal power station (Owendo), Port-Gentil gas power station, as well as transmission lines (e.g. Woleu-Ntem Network, and the ongoing work on the Estuary Network to the south).

5. Olam Gabon. In 2010, Gabon and Olam entered into four public-private partnerships (PPPs) to develop and operate two large-scale agriculture projects (palm and rubber), the first special economic zone (SEZ) in Gabon, and a fertilizer plant in Port-Gentil. These initial plans have since been expanded to include development of a smallholder-based agriculture program called GRAINE, which will leverage company infrastructure to facilitate small scale cash and industry crops (mainly palm oil) (Figure 1). In support of these investments, Olam has also invested in related infrastructure, including a mineral port, a multipurpose port, rail rehabilitation and stock, and transmission lines to support rural electrification. The ports will be operated as standalone profit-generating units, and accessible to the wider economy, improving Gabon's competitiveness and reducing domestic prices.[1]

6. Recent developments. Olam linked joint ventures have grown to almost 12,000 employees, which is likely to reach 16,000 with the start of harvesting activities. Investment through 2022 is expected to reach US$5.8 billion, and the US$2.1 billion spent to date has been broadly in line with previously announced plans. The palm and rubber projects have already started generating output, and are about three-quarters complete. Infrastructure spending is about 50 percent complete, with the two ports expected to be fully operational by mid-2017. The pace of investment is expected to peak during 2017–19 as these established activities are joined with an

Figure 1. Gabon: Planting timeline
(Hectares)

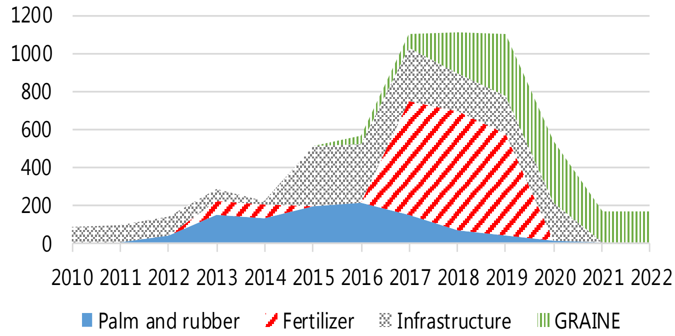


Source: Olam Gabon

[1] The company estimates that the modern shipping in infrastructure will halve shipping costs and time.

ammonia-urea fertilizer manufacturing project and the *GRAINE* program[2] (Figure 2). This does not include direct investment via the Nkok SEZ, where corporate clients have pledged investments of US$1.7 billion.[3] While the overall investment program is geared to cater international markets, a portion of its output will service the local economy and thereby gradually revert Gabon's current dependency on imports for most of its foodstuffs.

Figure 2. Gabon: Olam-related investment
(USD millions)



Source: Olam Gabon

7. Outlook. Prospects favor the expansion of palm oil monoculture in Gabon, as elsewhere in Africa. Indonesia and Malaysia currently account for 85 percent of total palm oil production, but supply growth from these traditional sources is expected to slow in the coming decade.[4] Furthermore, with palm oil representing over one-third of all vegetable oil production, demand should continue to grow for food consumption and for use in the chemical and bio-diesel industries. Nonetheless, even though large-scale monoculture is well-rooted in many parts of Africa, several new projects have had limited traction (Table 1). These projects faced heavy criticism on both environmental (deforestation) and social (land use, workers' rights) grounds. In view of the weakness of national governance and legal systems in these countries, often there are no instruments in place to either support or regulate responsible management practices. Given that Olam's project is now relatively advanced, it offers some useful lessons in sustainable project development, notably an evolving dialogue that has involved government, the investor, civil society, NGOs, and financial institutions on land use and environmental stewardship, including the *GRAINE Forum d'Echanges*. Nonetheless, Olam's project still faces other challenges:

Table 1. Select large scale platation projects in Africa

Company	Country	Launch	Scale ('000 Ha)	Status ('000 Ha)
Sime Darby	Liberia	2009	220	10 Ha planted
Wilmar	Uganda	2008	20	10 Ha planted, on hold
Wilmar	Nigeria	2010	50	30 Ha rehabilitated
Herakles Farms	Cameroon	2009	60	Aborted
Golden Veroleum	Liberia	2009	240	Less than 10 Ha
Sime Darby	Cameroon	2011	300	Aborted
ZTE Agri-business	DRC	2010	>200	Aborted

Source: IMF staff

8. Uncertain timing of the fertilizer project. Olam has invested US$192 million in engineering and other preparatory work for the fertilizer project, which could be operational within 30 months. Given that the company expects to announce its final investment decision in the coming

[2] *Gabonaise des Réalisations Agricoles et des Initiatives des Nationaux Engagés*.

[3] The Nkok SEZ has sold land areas to 81 corporate clients, of which 22 have already started operation, and 32 are establishing facilities.

[4] OECD-FAO Agricultural Outlook, 2016-2025.

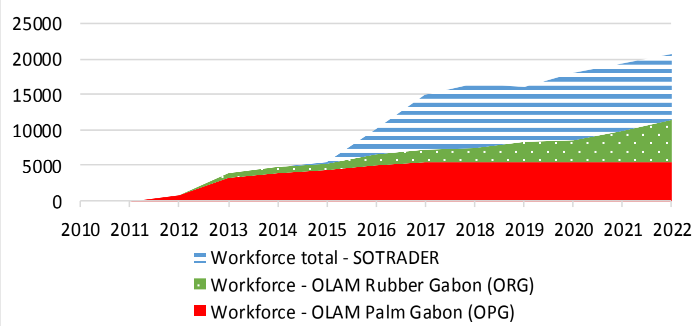
months, staff assigns a high level of likelihood to both the direct investment and the associated imports for this project starting from 2017. The plant would represent a significant gain in export revenue potential, producing US$450 million in sales in a steady state, although this is being omitted from current projections from the time being.

9. Slow rollout of GRAINE. A National Agricultural Development Strategy has been developed to support the implementation of GRAINE, although this has not been formally adopted by the Gabonese government. To date, total capital expenditure related to GRAINE amounts to US$ 101 million, out of a total capex of US$ 1.5 billion.[5] Given that GRAINE has been conceived as a joint venture, the state's participation is likely to be constrained by the difficult fiscal outlook, with only CFAF 2 billion earmarked under the draft Public Investment Plan.[6] Although Olam still intends to implement GRAINE as part of its corporate social responsibility (CSR) initiative, agricultural yield projections have been marked down to reflect a gradual ramping up of acreage under the program.

10. Impact on growth. Although hydrocarbon or mineral extraction will continue to factor prominently in Gabon, current global market conditions would not support large scale investment in these sectors over the medium term. Moreover, recent IMF Research Department analysis concludes that the protracted effects of fiscal adjustment and the slow process of factor price adjustment would entail a permanent decline in potential non-oil growth to the 2–3 percent range. That said, the direct impact of Olam's project on agricultural GDP is likely to be large, and related processes will facilitate economic rebalancing and structural transformation, boosting commodity-related sectors from around 13 percent of economic activity to over 21 percent of GDP by 2022, arguing for a higher level of potential growth over the medium terms of between 5–6 percent.

- ***Exports***. Palm oil and rubber exports alone are expected to progressively ramp up from negligible levels in 2016 to US$ 400 million per year by 2022. Prospective exports could be considerably higher with the implementation of Olam's fertilizer plant, other SEZ projects, and the realization of the *GRAINE* program.

Figure 3. Gabon: OLAM project, workforce
(persons)



Source: Olam Gabon

- ***Job creation***. The focus on the labor-intensive agricultural sector implies a significant gain

[5] Since its launch in December 2014, the program has registered 17,800 members and 860 cooperatives, of which 146 contracts have been signed with cooperatives. However, only 1,200 Ha of domestic crops and 3,100 Ha of export crops have been planted so far.

[6] *GRAINE* is a 51:49 joint venture of the Republic of Gabon and Olam, respectively. The vehicle for the joint venture is SOTRADER (*Société Gabonaise de Transformation Agricole*).

in terms of employment—both direct employment by Olam or indirectly via the smallholder program (Figure 3). By contrast, Shell, the largest petroleum company operating in Gabon, directly employed 500 workers in 2016.[7]

- ***Local content***. Agricultural production will not generate the same level of direct revenue to the state as hydrocarbon or mineral extraction through royalties and other taxes, particularly in a context of tax incentives. Nonetheless, a relative advantage of agricultural projects is their high demand for locally sourced goods and services inputs. Olam estimates that about two-thirds of its operating expenditure will remain in country, boosting local activity and mitigating foregone direct revenues.

- ***Reduced costs***. The additional transport and infrastructure capacity coming on line will also reduce domestic costs that can be leveraged by the broader economy. Furthermore, the catalytic potential of the project is relatively large in terms of spillovers due to import substitution with positive impacts on trade and transport.

[7] The Gabonese authorities estimate that direct employment in the relatively mechanized oil industry at 3,000.

Annex II. Authorities' Strategy to Clear Arrears

With the sharp decline in oil prices and Gabon's inability to adjust public spending in line with the drop in fiscal revenues since 2014, the financing of fiscal deficits has leaned excessively on the accumulation of arrears. This has now generated serious macroeconomic challenges that need to be addressed urgently. Total arrears amounted to 9.7 percent of GDP at end-2016, including 2.0 percent of GDP in external arrears. This note reviews the structure of these arrears and the authorities' strategy to clear them. In staff's view, the authorities' intention to clear all external arrears by end-2017 seems feasible if the fiscal program is implemented rigorously. Failure to clear these arrears quickly would seriously undermine the country's creditworthiness and would likely prevent Gabon's access to financial markets, which is needed to meet overall financing needs. With respect to domestic arrears, the authorities have decided to separate the payment of direct arrears to government suppliers, which have macro-financial linkages and VAT arrears, which are mostly owed to large oil companies. The latter could be paid over several years to alleviate cash flow pressures.

A. Arrears Profile

1. Gabon started to accumulate arrears at the onset of the oil price decline in mid-2014, though it is not possible to track with precision stocks and flows prior to 2016 due to weaknesses in PFM and accounting systems**.** While the accumulation of domestic arrears to suppliers and on VAT refunds started in 2014, the government started accumulating arrears on interest and amortization on external debt in 2016—with an acceleration in the pace of accumulation in the third and fourth quarters (Text Figures 1 and 2).[1] This reflected in part the sharp drop in revenue collections, difficulties to mobilize enough resources from the Regional Government Securities Market (RGSM), and the postponement to 2017 of a disbursement from the African Development Bank. Total arrears reached 9.7 percent of GDP at end-December 2016 (Text Table 1).

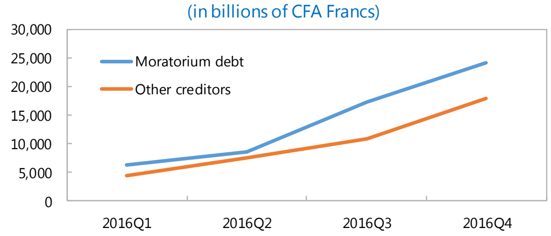
B. Holders/Creditors

2. Gabon has accumulated arrears to both domestic and external creditors and suppliers. Arrears can be classified into three categories. There are (i) domestic arrears on VAT refunds; (ii) domestic Treasury arrears (i.e. expenditure arrears), which are related to the budgetary float; and (iii) domestic and external debt arrears, which are related to amortization and interest due on public debt. (Figures 3 and 4). It is worth noting that no arrears were accumulated on interest and amortization due on debt owed to the domestic banking sector and/or on the RGSM. Domestic

[1] Moratorium debt refers to extra budgetary spending prior to end-2014 that went into arrears and was recognized by a Committee of Certification of Domestic Debt as official government debt. The amount was equivalent to about 3 percent of GDP. However, the repayment schedule on this moratorium debt is not being respected, which has turned moratorium debt into another source of arrears. The government has argued that there are no other extra budgetary arrears for 2015 and 2016.

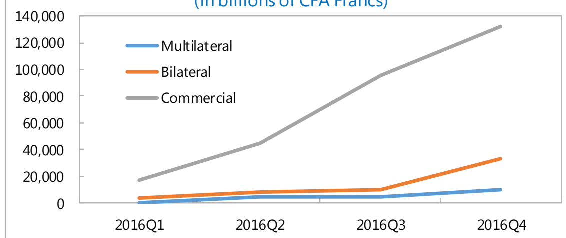
arrears were accumulated mainly on debt owed to construction companies, oil companies and utility companies, rendering them vulnerable to a default by the government.

Text Figure 1. Gabon: Quarterly Accumulation of Domestic Arrears by Creditor, 2016
(in billions of CFA Francs)



Source: Gabonese authorities.

Text Figure 2. Gabon: Quarterly Accumulation of External Arrears by Creditor, 2016
(in billions of CFA Francs)



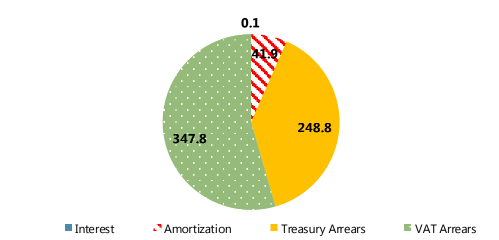
Source: Gabonese authorities.

Text Table 1. Gabon: Total Arrears (end 2016)

	CFAF billions	% of revenue	% of GDP
Total Arrears	803.2	56.4	9.7
External arrears	164.6	11.6	2.0
Interest payments	18.0	1.3	0.2
Amortization	146.6	10.3	1.8
Domestic arrears	638.6	44.8	7.7
Interest	0.1	0.0	0.0
Amortization	41.9	2.9	0.5
Treasury Arrears	248.8	17.5	3.0
VAT Arrears	347.8	24.4	4.2

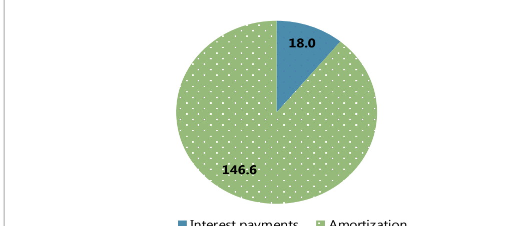
Source: Gabon authorities.

Text Figure 3. Gabon: Domestic Arrears, 2016
(in billions of CFA Francs)



Source: Gabonese authorities and IMF staff calculations.

Text Figure 4. Gabon: External Arrears, 2016
(in billions of CFA Francs)



Source: Gabonese authorities and IMF staff calculations.

3. External arrears accrued on debt owed to multilateral, bilateral, and commercial entities. A large part of these arrears is owed to 21 commercial creditors in 18 countries. In addition, at end-2016, Gabon had payments in arrears with about 10 bilateral creditors. Most of these arrears were still outstanding in May, and staff brought this issue to the attention of the concerned Executive Directors to obtain their consent prior to the Board meeting in line with the existing nontoleration of sovereign bilateral arrears policy.[2] With respect to commercial creditors, staff received documentation from the authorities showing that they have been in contact with creditors to explain the current difficult fiscal position and initiate good faith efforts to renegotiate the repayment profile.[3]

C. Impact of the Arrears on Debt Sustainability

4. Arrears must be treated in a transparent manner. Staff argued, and the authorities agreed, that the most transparent way of dealing with arrears is to incorporate them into the debt stock. This has resulted in an increase in the central government's debt stock to about 64 percent of GDP at end-December 2016.

- Given the authorities' intention to clear a large share of the outstanding arrears in 2017 (as per the schedule in Text Table 2 below), the gross financing needs this year (around 14 percent of GDP) are much larger than the recent historical average (6.6 percent of GDP). Such front-loaded repayment schedule is possible due to budgetary support commitments of about US$1.0 billion from multilateral and bilateral creditors. Furthermore, the government intends to roll over the US$193 million Eurobond amortization that falls due at year end.

- Staff's informal discussions with financial market participants suggest that the chances of rolling over the entire Eurobond amount falling due this year are positive, and that a credible and time-bound plan to clear all external arrears and place Gabon's fiscal strategy on a sustainable path would thus enable the government to maintain some semblance of market access.

5. The updated Debt Sustainability Analysis shows that Gabon's public debt remains sustainable. The current macroeconomic framework under a Fund-supported program scenario generates a sustainable debt trajectory, whereby the debt stock declines to below 50 percent of GDP by 2022. While the DSA does not suggest the need for debt restructuring, the current level of Gabon's debt is quite high, given the country's income level.

6. However, contingency measures are needed to strengthen the authorities' commitment to the tight fiscal adjustment path. One such contingency measure is to build buffers into the Fund-supported program in the form of privatization receipts (the government possesses some liquid equity stakes in local companies), which could be used in the case of a revenue shortfall.

[2] See also, paragraph 17 in policy paper "Sovereign Debt Restructuring – Recent Developments and Implications for the Fund's Legal and Policy Framework" (April 2013).

[3] The authorities' program also envisages the clearance of multilateral arrears (0.1 percent of GDP) in 2017.

D. Strategy to clear the arrears

7. The authorities' clearance strategy for domestic arrears considers phasing, prioritization, and modality issues.

Domestic Arrears

- **Phasing:** The intention is to spread the repayments of domestic arrears over several years (Text Table 2), in order not to stretch the gross financing needs further, avoid excessive tightening of fiscal policy in the near term, and allow adequate time to audit and validate the stock. Furthermore, the approach implicitly implies a haircut in NPV terms, as interest on the debt will be foregone. Faster clearance of these arrears would buttress financial stability and have confidence boosting effects, but the resources required are not readily available.

- **Prioritization:** The budgetary float (related to regular spending) represents unpaid commitments (directly or indirectly) to government suppliers. Given their macro financial linkages, they should be cleared over no more than two years. Moratorium debt relates to extra budgetary spending before end-December 2014 that went into arrears, and has been recently recognized by the government. It should be repaid over 4 years and no other agreement on possible extra budgetary spending incurred in 2015-16 should be concluded before other arrears (especially the budgetary float) have been properly treated. Repayment of VAT arrears could be extended over 4 years given their lower direct impact on economic activity, and the fact that they are largely owed to large companies with stronger balance sheets.[4]

- **Modality:** The strategy builds upon Gabon's experience with similar debt operations in the past. In 2004, the government reached an agreement with a group of domestic creditors, called the Libreville Club, which was open to all creditors with claims exceeding CFAF 50 million, and provided for settlement over an 18-month period. Claims presented to the Libreville Club included treasury float and arrears on domestic debt obligations. All parties involved in the operation were satisfied with the outcome. More recently, the same process was used to validate and convert arrears owed to large and small enterprises in 2014 into moratorium debt to be paid over five years. In fact, some of the current domestic creditors (e.g., oil companies) indicated their acceptance of a phased repayment of VAT refund arrears.

[4] However, the government should ensure that the VAT reimbursement system works appropriately after the start of the program and no additional VAT arrears should be accumulated.

8. With respect to external arrears, there are risks associated with delaying clearance beyond 2017. As mentioned above, the authorities intend to tap the Eurobond market as part of their strategy to finance the 2017 budget (i.e., roll over about US$193 million of maturing Eurobond debt by December 2017). Prospects of maintaining market access would weaken significantly if Gabon maintained a substantial stock of external arrears. Bilateral arrears should be cleared as soon as possible, and prior to the first Fund-supported program review. Arrears with commercial banks should also be cleared by the end of the year. Failure to do so could result in a loss of access to project finance, as about half of the externally-financed capital expenditures are financed by commercial banks. Short-term liquidity constraints suggest that the authorities may not be able to clear these arrears until the last quarter of the year, when a large share of external financing will be made available. Depending on the evolution of revenue collections towards the end of the year, there is a possibility that payment of some of the arrears owed to commercial banks would have to be extended into the first half of 2018; however, the authorities have indicated that they will continue to apply good faith efforts to reach a collaborative agreement with their creditors. All bilateral and multilateral arrears should be cleared prior to the first review of the EFF arrangement.

Text Table 2. Gabon: Strategy to Clear Arrears, 2017-2022
(In percent of GDP)

	2017	2018	2019	2020	2021	2022
Total arrears clearance	**6.0**	**3.5**	**1.8**	**1.4**	**0.0**	**0.0**
Domestic Arrears	**4.0**	**3.5**	**1.8**	**1.4**	**0.0**	**0.0**
Interest	0.0					
Amortization	0.5					
Moratorium debt	0.7	1.4	0.8	0.5		
Expenditure arrears	1.8	1.1				
VAT arrears	1.0	1.0	0.9	0.9		
External Debt	**2.0**					
Multilateral	0.1					
Bilateral	0.3					
Commercial	1.6					

Source: Gabonese authorities.

9. Should an even more aggressive re-profiling of Gabon's external arrears be considered? In staff's view, the current strategy strikes the right balance:

- First, the DSA shows that Gabon's debt is sustainable.

- Second, recent international market developments suggest that Gabon's prospects for regaining market access by the end of the year are good if appropriate policies are followed. Spreads have been declining from 700 basis points at the beginning of the year to below 500 basis points in May.

- Third, if the authorities failed to reach an agreement with creditors in the context of a more aggressive reprofiling, there would be risks of further undermining confidence that could jeopardize other existing financial commitments and investment projects. For example, some project finance for large FDI-related private sector projects (including the critical projects from OLAM and special economic zones) could be lost if Gabon's creditworthiness is questionable.

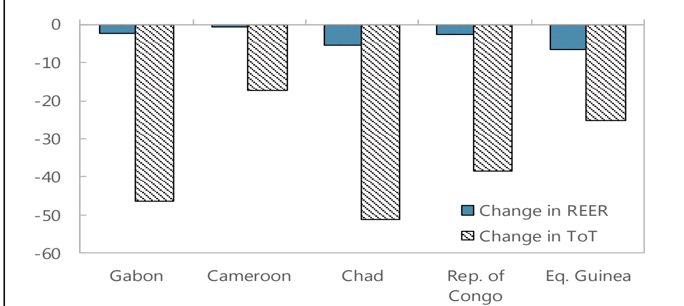
Annex III. Gabon: External Stability Assessment

Gabon's external position for 2016 was substantially weaker than warranted by fundamentals and desired policies. The deterioration is due to the large and continued terms-of-trade shock from low oil prices, sharply reducing nominal exports and leading to a current account deficit of about 10 percent of GDP in 2016. Due to the authorities' economic diversification strategy, which started in 2012, investments in agri-business and related infrastructure have been taking place, thereby contributing to the current account gap. While those investments, and related imports, will persevere in the near term, the on-streaming of output will continuously lift exports. The elimination of structural impediments will improve competitiveness and productivity, thereby allowing the current account gap to be closed over time. Gabon's gross imputed reserves at BEAC have also dropped to below 1.5 months of imports in 2016. Concerted efforts by multilateral and bilateral partners will provide sufficient budget support flows to allow for a positive overall balance and rebuild international reserves in the near term, as the process of economic diversification continues.

1. **Gabon's terms of trade deteriorated by over 50 percent over the last two years, primarily driven by the drop in oil prices**. The deterioration, though large, is similar to other CEMAC oil exporting countries, except for Cameroon, whose oil sector is comparatively smaller. From 2014 to 2016, the real effective exchange rate dropped by 2.8 percent, a trend that was mainly driven by the appreciation of the US dollar vis-a-vis the Euro, to which the CFA franc is pegged.

Figure 1. CEMAC: Trade and Exchange Rate 2014–16

(Percentage Change)



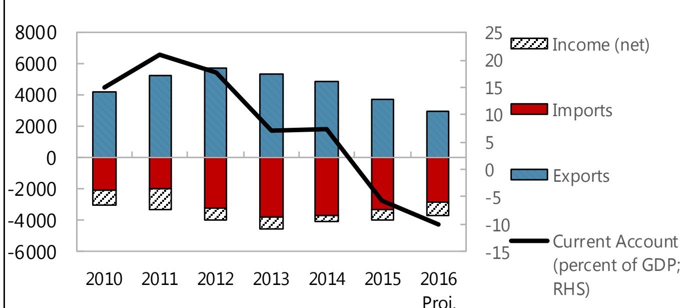
Sources: World Economic Outlook and IMF staff estimations.

Note: Changes are calculated as the percentage change from 2014 to 2016.

2. **The steep increase in the current account deficit experienced in 2015, continued into 2016.** The deficit was estimated to have widened to 10 percent of GDP in 2016, from a surplus of 7.3 percent in 2014, primarily driven by the continuing low oil prices. Oil export revenues are projected to have been CFAF 1,941 billion (US$3.3 billion) in 2016, down from CFAF 3,800 billion (US$7.7 billion) in 2014. The deficit is expected to narrow in 2017, gradually decline over time and turn positive on the back of non-oil exports by 2021.

Figure 2. Current Account, 2010-16

(Billions of CFA, unless otherwise specified)



Sources: Gabonese authorities and IMF staff estimates.

3. Standard external sustainability assessment tools point to an overvaluation of the real exchange rate between 6 and 22 percent. The first part of the external assessment is done using the standard EBA-light toolkit, including the CA model and the Index REER Model, but not the ES approach since there is no available data for the net international investment position (NIIP) and related series for Gabon. The EBA-light normative assessments assess whether the current account and real exchange rate deviate from an estimated norm, allowing the calculation of the gap. The CA norm is estimated for a large set of emerging markets.. These results were obtained when specifying a range of assumptions: a target level of inputed reserves of 5-months of imports, with a path to achieve this target over a 3-5 year period. While the CA gap suggests an external position that is substantially weaker than fundamentals and desirable policy settings, the REER gap only points to a moderately weaker position.

Table 1. Gabon: Real Exchange Rate Assessment

Summary Table: EBA-Lite: CA Norm and IREER

	CA Norm	REER	CA Norm	REER
CA-Actual	-10.1%		-10.1%	
CA-Norm	-5.2%		-5.8%	
CA-Gap	**-5.0%**		**-4.3%**	
Elasticity	-0.23		-0.23	
ln(REER)-Actual		4.61		4.61
ln(REER)-Norm		4.53		4.55
Real Exchange Rate Gap	**21.7%**	**8%**	**18.7%**	**6%**
Assumptions				
Years to adjust	3		5	
Current reserve level in $ bn.	0.63		0.63	
Reserves target in $ bn	2.15	5-months imports	2.15	5-months imports
Needed Reserves accum. in Bn $	1.42		1.42	
Needed yearly adjustment in $ bn	0.47		0.28	
Needed Adjustment (P*), change in reserves/GDP (per year)	0.03		0.02	

Source: Fund staff estimates.

4. Applying exchange rate assessments tailored to resource rich countries indicates a more moderate degree of overvaluation. Oil exporters are different from other countries on a series of dimensions, from the importance of oil revenues for the fiscal accounts to the need to build extra reserves for intergenerational consumption smoothing. The methodology developed by Bems and Carvalho (2009)[1] allows an additional assessment of the exchange rate valuation, based on domestic and external fundamentals and tailored to the conditions of a resource-rich country. The table below presents the medium-term trade balance norm and overvaluation, based on the baseline macroeconomic framework and WEO projections. Depending on the choice of allocation rule from nonrenewable resources an overvaluation between 1 and 19 percent is estimated. When balancing the various quantitative assessments with an analysis of macroeconomic fundamentals and what should be deemed a set of desirable policies, staff judges the exchange rate to be overvalued by about 8 to 10 percent.

Table 2. Gabon: External Stability Assessment, 2022

	Bems and Carvalho		
	Constant real annuity	Constant real per capita annuity	Constant annuity over output
MT trade balance norm (Percent of GDP)	2.5	5.3	13.1
Underlying trade balance (Percent of GDP)	2.0	2.0	2.0
Trade balance elasticity[2]	0.6	0.6	0.6
Overvaluation (Percent)	0.9	5.8	19.2

Source: IMF staff estimates.

[1] Bems and Carvalho methodology assesses the REER in the medium term.

[2] Trade elasticity is estimated assuming exports volume and imports volume elasticities equal to zero.
Hakura and Billmeier (2008): "Trade Elasticities in the Middle East and Central Asia: What is the Role of Oil?", WP/08/216, IMF.

5. The permanent decline in oil prices requires a focus on diversification to increase competitiveness. For an extended period, Gabon's strong endowment with natural resources helped generate large positive current account balances, which drove external assessments and indicated a general consistency with fundamentals and desirable policies. This situation was changed due to the permanent decline in oil prices, which now requires a focus on diversification to increase competitiveness. Tables 1 and 2 reflect the need to adjust Gabon's economic structure. Some of the adjustment is under way, enabled through the PSGE[2] and the resulting on-streaming of agricultural output as well as the expansion of infrastructure, particularly ports, rail, and electricity. When focusing more strictly on prices and exchange rates, plotting REER indices for a comprehensive set of oil exporting countries provides additional information to compare results with those presented in Table 1. Figure 3[3] shows how Gabon, as well as other CEMAC countries, experienced considerable REER stability over time. Thus, the overall recent worsening of the external assessment seems mainly a function of the oil price shock, the related deterioration of export value,

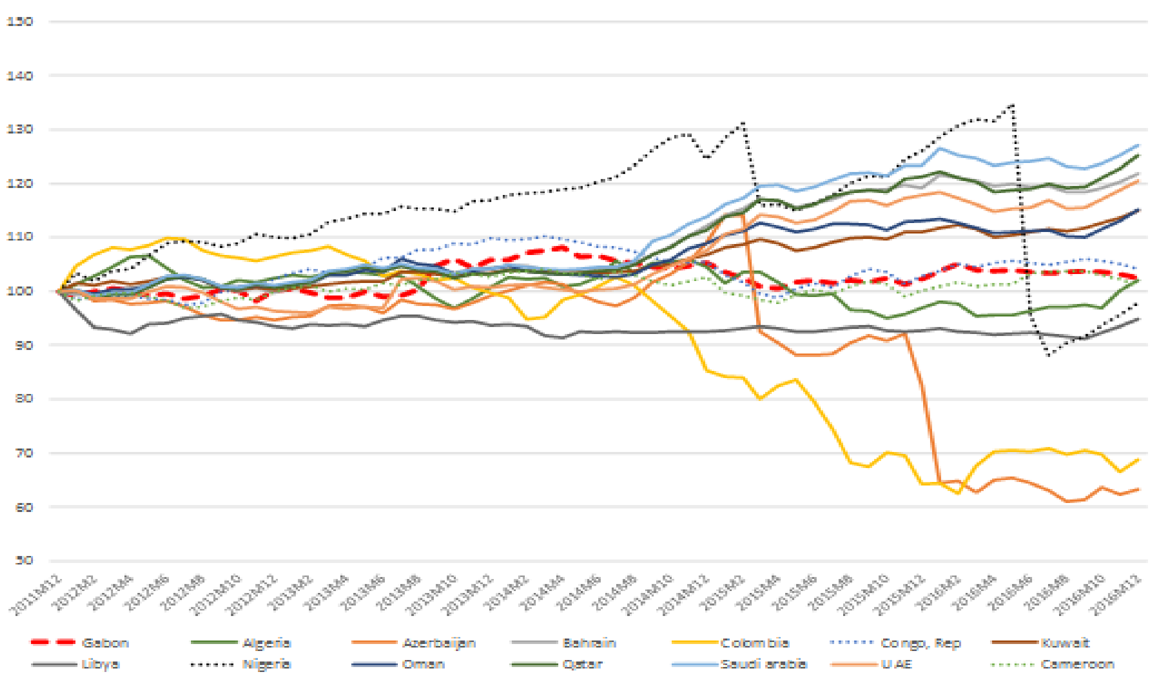
[1] Bems, Rudolfs and de Carvalho Filho, Irineu, 2009, "Exchange Rate Assessments: Methodologies for Oil Exporting Countries", IMF Working Paper 09/281.

[2] PSGE: Plan Strategique Gabon Emergent

[3] REER (real effective exchange rate) is the nominal effective exchange rate (a measure of the value of a currency against a weighted average of several foreign currencies) divided by a price deflator or index of costs. An increase in REER implies that exports become more expensive and imports become cheaper. Hence, an increase indicates a loss in trade competitiveness. While the index series in not adequate for a precise quantification of competitiveness, it broadly allows comparing competitiveness dynamics across countries

and the resulting change to the reserve position rather than a result of sectoral inflation dynamics in the economy. While oil fields are mature and a gradual production decline is envisaged, the recent drop in nominal oil export value is unrelated to that historic trend.

Figure 3. REER Indices Across Oil-Exporting Countries
(2011M12=100)



Sources: World Economic Outlook.

6. Since Gabon belongs to a monetary union, the available paths to regain competitiveness are more limited than in countries with a flexible exchange rate. One line of study has focused on fiscal devaluations; in other words, how the design of fiscal policy measures can be fine-tuned to achieve the equivalent results of nominal devaluations. In particular, changes in the structure of taxation, including increases in value added taxes and reductions in payroll taxes have been singled out as effective instruments (Farhi et al 2013)[4]. This is more difficult in developing and emerging markets like Gabon where payroll taxes are not very large and changes in the structure of taxation might not be revenue neutral, which limits the effectiveness of this instrument as a policy option. The current Fund-supported program focuses on a set of policies, especially the strong control of the public sector wage bill, supported by a series of additional PFM measures to improve the efficiency of spending, including on infrastructure and public investment to increase value for money and reduce structural bottlenecks.

[4] Farhi, Emmanuel, Gita Gopinath, and Oleg Itskhoki. 2013, "Fiscal Devaluations", *Review of Economic Studies* 81(2): 725–760.

7. A second (and complementary) path to regain competitiveness in Gabon is through the ongoing process of structural transformation. In addition to fiscal adjustment, the most decisive factor to ensure external stability is Gabon's capacity to attract foreign direct investment to support economic diversification and boost exports. Partly because of the government's strategic plan to diversify its economy (PSGE), a sizeable investment project backed by an Indian-Singaporean agri-industry conglomerate is gaining momentum. Out of the planned $5.8 billion in investments, $2.1 billion have already been invested since 2010. This is supporting the emergence of new export industries, such as palm oil where the first exports took place in 2016. A series of other cash crops and products will be brought on stream in the coming years. As laid out in detail in Annex I, the project encompasses various economic sectors. While the agricultural output of Gabon is intended to be incorporated into the global food value chain of the group, the economic impact of the group's investment will be far reaching. Particularly the conclusion of a container and bulk port construction, planned for mid-2017, will allow on and offloading ships in less than half the cost/time, thereby boosting export competitiveness. Because of this investment activity, the current account is expected to improve by about 0.8 percent of GDP, compared to a framework without these agri-industry projects. These trends help moderate REER overvaluation concerns.

8. The assessment of high soil fertility, benign climatic conditions, and the government support of structural transformation through PSGE has convinced investors to step up their engagement in Gabon. This has led to an increase in FDI from 6 percent of GDP in 2014 to about of 9 percent in 2016. Given that these increased flows took place concurrently with the oil price shock, this suggests that international investors are beginning to see profitable opportunities outside the traditional oil sector. As laid out in Annex I, these new sources of growth are based on long-term investment plans, and are likely to support a similar inflow of funds in the medium-term. The need to finalize the build-up phase of agricultural plantations and related infrastructure investments suggests that FDI flows are unlikely to subside in the near term. These trends, the authorities' commitment to fiscal adjustment and structural reforms, and the sizeable projections of budget support from the international community are expected to help Gabon rebuild international reserves to a level of 5-months of imports over the medium term.

Annex IV. Gabon: Debt Sustainability Analysis

Gabon's public and external debt levels have changed considerably since the last DSA assessment (2015 Article IV, March 2016). Total public debt (including arrears) reached 64 percent of GDP at end-2016—14 percent of GDP higher than earlier calculations. The incorporation of domestic arrears (7.5 percent of GDP) as well as statutory advances from BEAC are the main factors explaining this level-shift in 2016. Public gross financing needs over the next three years are elevated (averaging 9-10 percent of GDP per year) and the appearance of external arrears suggest that the government is facing short-term liquidity constraints. The full implementation of a sizable fiscal adjustment program and a strong recovery of non-oil growth are critical to ensure that debt is sustainable, and declines over the life of the Fund-supported program to around 57 percent of GDP. Stress tests suggest that debt remains sustainable against most standard shock scenarios. Clearance of external arrears is crucial to ensure continued market access.

A. Public Debt Sustainability

1. The rapid accumulation of debt over the past ten years is mostly due to pronounced investment expenditure. Three major events have led to a rapid debt build up from a comfortable 19 percent of GDP in 2008 to 64 percent in 2016. The first was the large investment activity related to the government's strategic plan for economic diversification (PSGE), aimed at reducing the reliance on oil. Second, capital spending in the run-up to the two soccer African Cup of Nations in 2012 and 2016. Finally, government borrowing increased to dampen the recent oil price shock, which triggered a large decline in oil revenue and turned the GDP deflator negative—worsening the debt to GDP ratio. While staff has not performed an in-depth expenditure review, and the investments on soccer stadiums have not added to the country's productive capacity, the funds and priority assigned to the PSGE have started to bear fruit. The on streaming of exports by OLAM, leading one of the largest agri-industry projects in Africa (see also related Annex) will allow a much-needed reduction in Gabon's dependence on oil and minerals, support higher rates of growth, and enable the sustainability of debt.

2. Overview of the public debt level and structure. Gabon's public debt stood at CFAF 5,335 billion (US$8.6 billion) as of the latest figures for 2016, which include the incorporation of domestic arrears as laid out in detail in Annex II. Debt has rapidly increased this decade as the government sought funds to finance the PSGE, to build the infrastructure needed for the soccer African Cup of Nations in 2012 (jointly with Equatorial Guinea), and since 2015, to make up for lower revenues following the oil price shock. In 2013, the government placed a US$1.5bn Eurobond. The increase in the debt ratio from 2014 to 2015 was largely due to the issuance of a US$500 million Eurobond in June, the Euro-CFAF depreciation, and the considerable decline in nominal GDP resulting from the collapse in oil prices. Gabon's government debt is mostly external and medium-to-long term. It is worth noting that while the CEMAC regional group sets a public debt ceiling at 70 percent of GDP (deemed too high in recent CEMAC regional surveillance staff reports), Gabon sets a more conservative ceiling of 35 percent of GDP, which was exceeded in 2015.

3. Baseline scenario. The proposed baseline scenario reflects projections made in the macroeconomic framework described in Tables 1 to 5 of this staff report. Staff's baseline scenario assumes that the non-oil revenue base would be widened over time with the elimination of overly generous tax exemptions; wages and salaries would gradually decline in percent of GDP; and capital spending would remain constant at around 5 percent of GDP. International oil and other commodity prices, as well as exchange rates reflect World Economic Outlook (latest vintage) projections through 2022. The envisaged Fund-supported program disbursements are included in the debt dynamics. The public DSA shows that debt levels would remain around 64 percent of GDP until 2018 and gradually decrease thereafter.

Table 1. Gabon: Public Debt Stock by Components in 2014–16 (CFAF billion)

	2014	2015	2016
External Debt	**2,454.10**	**2,884.40**	**3,107.00**
Bilateral	573.3	695.9	742.8
Multilateral	350.8	383.3	376.8
Commercial	602.7	496.6	641.4
Financial Markets	927.2	1,308.70	1,346.00
Domestic Debt	**607.6**	**916.8**	**2,228.30**
Banking	302	452.4	810.7
Non-Banking System	305.6	464.4	1,417.60
Total Public Debt	**3,061.70**	**3,801.20**	**5,335.30**

Source: Gabonese authorities.

4. Shocks. A historical scenario, in which the fiscal balance is much higher than in the baseline, translates into a reduction in public debt levels over the projection period (see Figure 1). On the other hand, when considering a scenario where the primary balance is kept constant at the current level, the debt dynamics are higher than in the baseline. Debt remains sustainable under a variety of shock scenarios, except when assessed against a combined macro-fiscal shock that includes higher primary balance deficits, lower growth and inflation, and an interest rate shock (Figure 3).

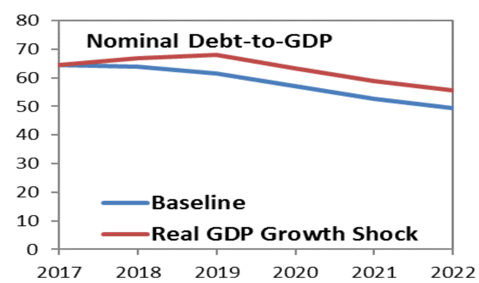
5. The role of growth in the debt sustainability projections. The current baseline envisages a gradual recovery of real GDP growth from its current projected level of 1 percent for 2017 to a level of 4.8 percent by 2021. By comparison, the average growth for emerging market economies and low income countries will increase from a current level of 4.6 to 5 percent over the medium term. To assess the debt stock vulnerability to a growth shock, staff has generated a scenario of a one standard deviation negative shock to growth, accompanied by 25 percent pass-through effect to lower inflation (also negative shock) and interest rates (positive). The impact on the debt dynamics is noticeable, but the downward trajectory is still maintained, confirming that debt is sustainable under a worse growth scenario than envisaged under the baseline.

Table 2. Gabon: Assessing Realism of Growth Projections for DSA

	2017	2018	2019	2020	2021
Average EMs/DMs Real GDP Growth, WEO	4.6%	4.8%	4.9%	5.0%	5.0%
Gabon - Baseline Real GDP Growth Projection	1.0%	2.7%	4.1%	4.6%	4.8%
Gabon - Real GDP Growth Shock Projection	1.0%	-0.2%	1.2%	4.6%	4.8%

Source: WEO, staff projections

Text Figure 1. Gabon: Nominal Debt to GDP (Percent)



6. Quality and coverage of debt data. Staff worked intensively with the authorities and technical staff at the Debt Management Unit (DMU) during the Feb-2017 mission, consolidating information on the composition of the debt stock and the situation of arrears. The degree of cooperation and willingness to share information was commendable. Data inconsistencies across reporting tables could generally be resolved. While the DMU broadly seem adequately staffed and appropriate institutions are in place, with back-/middle-/front-offices, there are shortcomings that could be tackled through additional technical assistance.

7. The management of T-bills and related stocktaking practices should be coordinated with the DMU. The DMU only manages debt with original maturities longer than one year. For short-term liquidity management purposes, the Treasury is also actively issuing T-bills with a maturity of less than a year. Those T-bills are mostly issued locally and held by the banking sector, but the outstanding stock amount is not consolidated in the data reporting system of the DMU. The outstanding value of T-bills has increased over the last few years and closed 2016 at around a CFA 193 billion (or 2.3 percent of GDP).

8. While the projected interest rates are rising for all debt instruments, the increased importance of budget support in replacing commercial debt will have a positive impact on debt service. For the projection period, interest rates on domestic commercial debt will rise from the current average level of 5 percent to 7 percent by 2022. Debt on commercial and financial market external debt is projected to rise to 7.5 and 8.5 percent respectively. Multilateral debt rates are set around the level of 6-month Euribor plus 1.5 percent, and the projections are using the market priced forward rates extracted from Bloomberg.

B. External Debt Sustainability Analysis

9. **External debt level and structure.** After a considerable restructuring and subsequent declines in the late 2000s, Gabon's external debt went up from US$2.3 billion in 2009 to about US$4.8 billion in 2015 (equivalent to 34 percent of 2015 GDP). Such an increase is partly the result of the issuance of a US$1.5 billion Eurobond in 2013 (with US$ 610 million used for partial repayment of a US$1 billion Eurobond issued in 2007), and later an issuance of US$500 million in 2015. By 2016, debt to financial markets accounted for 43 percent of total external debt, bilateral debt stood at 24 percent, debt to banks represented 21 percent, and multilateral institutions held the remaining 12 percent.

10. **Baseline scenario.** The baseline scenario is the same as in the public debt sustainability analysis, reflecting projections made in the macroeconomic framework described in Tables 1 to 4 of the policy note. With respect to external debt, the macroeconomic framework assumes that all international bonds falling due until 2022 are rolled over. Under this scenario, the external debt sustainability framework projects that the external debt-to-GDP ratio should exceed 48 percent in 2019, and then gradually decline to 42 percent by 2022.

11. **Shocks** (Figure 5). Alternative scenarios include a historical scenario in which the main variables are assumed to be the same as in the past ten years, and others that incorporate a 0.5 standard deviation applied to the real interest rate, growth rate, and the current account balance. The historical scenario, in which financial needs are much lower than in the baseline, lead to a drastic reduction in external debt. But a shock to the current account balance or a currency depreciation cause a considerable debt escalation. Most notably, shocks to the non-interest rate current account lead to an increase in external debt to 67 percent in 2022, while a one-time 30 percent real exchange rate depreciation would lead to a debt spike of 71 percent in 2019.

12. **High financing needs and intra-year cash flow management will be challenging**. The full acknowledgement and incorporation of domestic arrears into the debt stock and a plan to clear a substantial share of arrears in the near term, generates high gross financing needs. A substantial amount of external disbursements will only be made available in the third and fourth quarter of the year. Thus, the government may face difficulties to stay current on its fiscal commitments and repay all external arrears until the last quarter of the year. The government has assured staff that it has maintained good communication with creditors and there was a general understanding and agreement toward the needs to have some flexibility in the schedule to clear arrears.

13. **Clear agreements on borrowing plans allow determination of ceiling on debt dynamics.** The financing plan is a concrete component of the Gabonese fiscal program. The Quantitative Program Targets (MEFP, Table 1) establishes ceilings on the stock of net domestic claims of the banking sector on the central government, as well as on the contracting or guaranteeing of external debt. Furthermore, Tables 4a and 4b of the Staff Report provide a detailed

financing plan for the medium term, which has been discussed and agreed with the authorities and incorporated into the DSA.

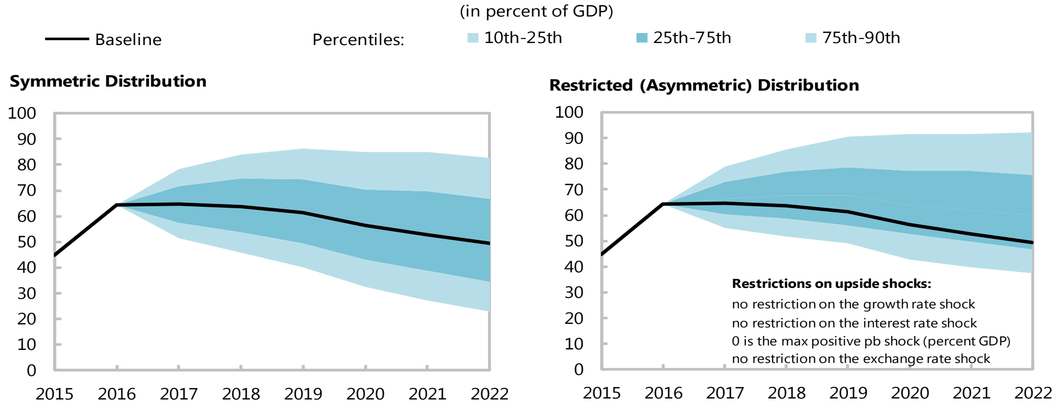
Figure 1. Gabon: Public DSA Risk Assessment

Heat Map

Debt level 1/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs 2/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile 3/	Market Perception	External Financing Requirements	Change in the Share of Short-Term Debt	Public Debt Held by Non-Residents	Foreign Currency Debt

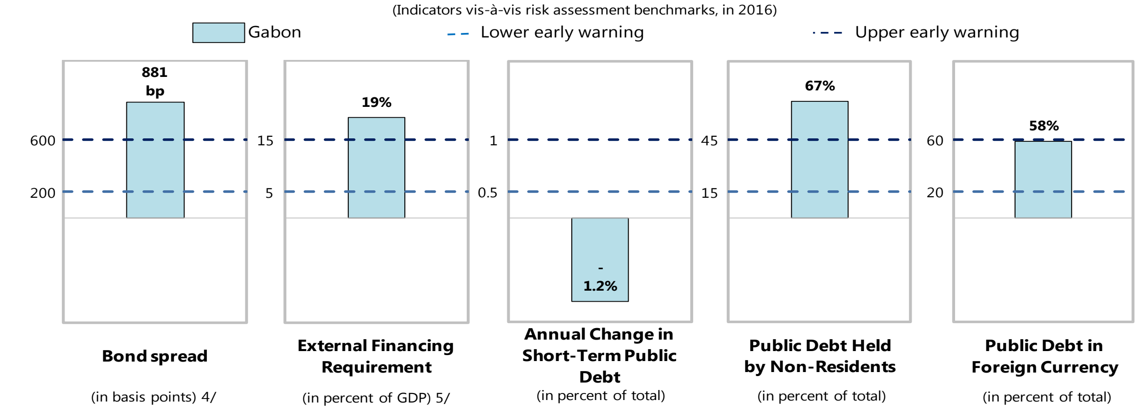
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2016)



Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

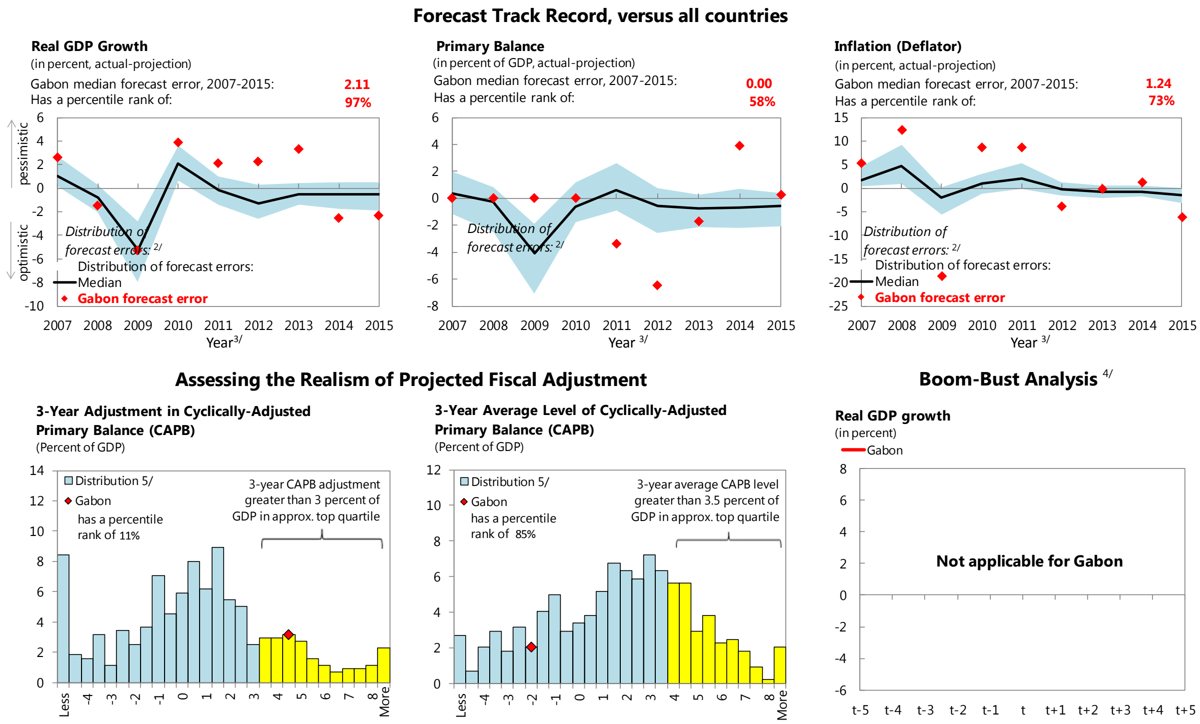
3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.
Lower and upper risk-assessment benchmarks are:

200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ Long-term bond spread over German bonds, an average over the last 3 months, 07-Oct-16 through 05-Jan-17.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

Figure 2. Gabon: Public DSA – Realism of Baseline Assumptions[1]



Source : IMF Staff.

1/ The non-oil primary balance is used as a proxy for the cyclically-adjusted fiscal balance.

2/ Plotted distribution includes all countries, percentile rank refers to all countries.

3/ Projections made in the spring WEO vintage of the preceding year.

4/ Not applicable for Gabon, as it meets neither the positive output gap criterion nor the private credit growth criterion.

5/ Data cover annual obervations from 1990 to 2011 for advanced and emerging economies with debt greater than 60 percent of GDP. Percent of sample on vertical axis.

Figure 3. Gabon: Public Sector Debt Sustainability Analysis (DSA) – Baseline Scenario

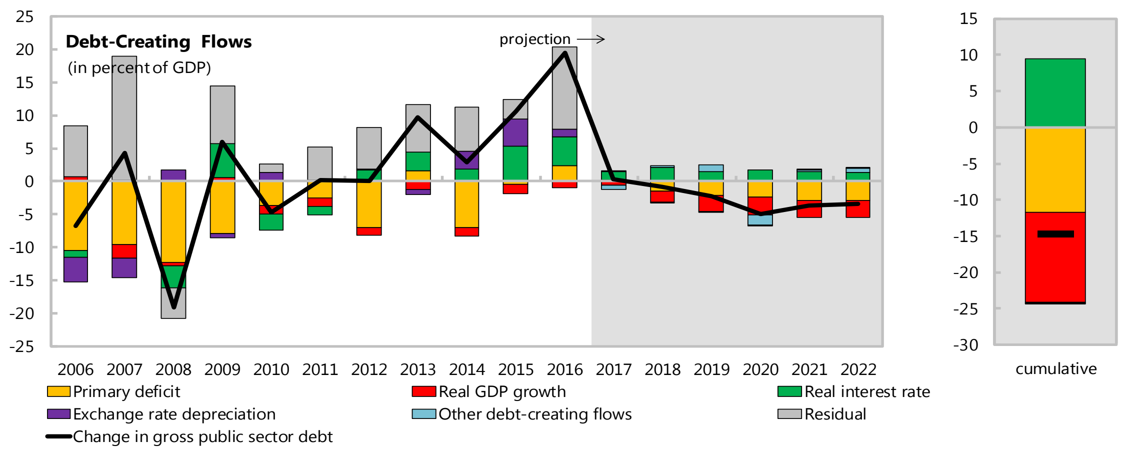
(In percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators [1/]

	Actual			Projections						As of January 05, 2017		
	2006-2014 [2/]	2015	2016	2017	2018	2019	2020	2021	2022			
Nominal gross public debt	27.7	44.7	64.2	64.6	63.8	61.5	56.5	52.8	49.5	Sovereign Spreads		
Of which: guarantees	0.2	0.0	0.5	0.5	0.5	0.4	0.4	0.4	0.4	EMBIG (bp) 3/		569
Public gross financing needs	0.2	3.7	11.8	13.4	9.0	6.8	6.5	4.6	7.6	5Y CDS (bp)		n.a.
Real GDP growth (in percent)	3.6	3.9	2.1	1.0	2.7	4.1	4.6	4.8	5.0	Ratings	Foreign	Local
Inflation (GDP deflator, in percent)	3.6	-8.9	-4.3	2.5	0.6	1.5	1.0	1.4	1.6	Moody's	B1	B1
Nominal GDP growth (in percent)	7.5	-5.4	-2.3	3.5	3.3	5.6	5.7	6.2	6.7	S&Ps	B	B
Effective interest rate (in percent) [4/]	4.7	4.3	5.1	4.6	4.1	4.0	4.0	4.2	4.5	Fitch	B+	B+

Contribution to Changes in Public Debt

	Actual			Projections							
	2006-2014	2015	2016	2017	2018	2019	2020	2021	2022	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	-0.8	10.6	19.5	0.4	-0.8	-2.3	-5.0	-3.7	-3.4	-14.7	
Identified debt-creating flows	-7.2	7.6	6.9	0.2	-0.7	-2.1	-4.9	-3.7	-3.4	-14.7	
Primary deficit	-6.6	-0.4	2.4	0.1	-1.5	-2.1	-2.4	-2.9	-3.0	-11.7	-0.4
Primary (noninterest) revenue and gran	28.6	21.1	17.1	18.8	18.9	19.1	19.1	19.2	19.2	114.3	
Primary (noninterest) expenditure	22.0	20.7	19.5	18.9	17.4	16.9	16.7	16.4	16.2	102.6	
Automatic debt dynamics [5/]	-0.6	8.0	4.5	0.7	0.5	-1.0	-1.0	-1.1	-1.1	-2.9	
Interest rate/growth differential [6/]	-0.4	4.0	3.4	0.7	0.5	-1.0	-1.0	-1.1	-1.1	-2.9	
Of which: real interest rate	0.4	5.4	4.3	1.3	2.2	1.5	1.7	1.5	1.4	9.5	
Of which: real GDP growth	-0.8	-1.4	-1.0	-0.6	-1.7	-2.5	-2.7	-2.5	-2.5	-12.4	
Exchange rate depreciation [7/]	-0.2	4.1	1.2	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.0	0.0	0.0	-0.6	0.2	1.0	-1.6	0.2	0.6	-0.1	
Privatization receipts and overdue tax	0.0	0.0	0.0	-0.9	-0.3	-0.3	-1.8	-0.7	-0.3	-4.4	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Accumulation of deposits at banking s	0.0	0.0	0.0	0.3	0.6	1.3	0.3	1.0	0.9	4.3	
Residual, including asset changes [8/]	6.4	3.0	12.6	0.1	0.0	-0.2	-0.1	0.0	0.0	-0.1	



Source: IMF staff.

1/ Public sector is defined as central government and includes public guarantees.

2/ Based on available data.

3/ Long-term bond spread over German bonds.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.

7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).

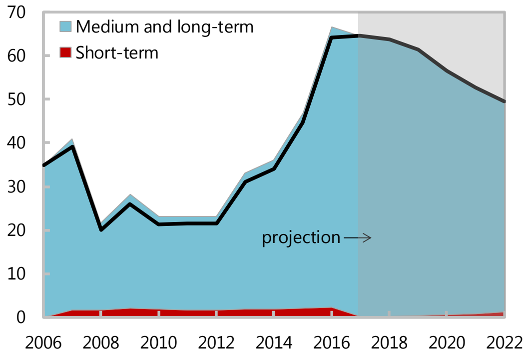
8/ Includes changes in the stock of guarantees, asset changes, and recognition of arrears. For projections, includes exchange rate changes during the projection period.

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

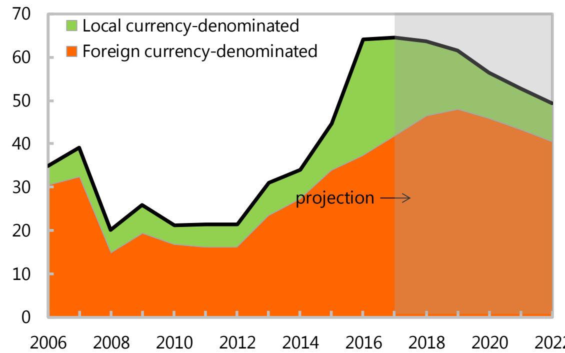
Figure 4. Gabon: Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



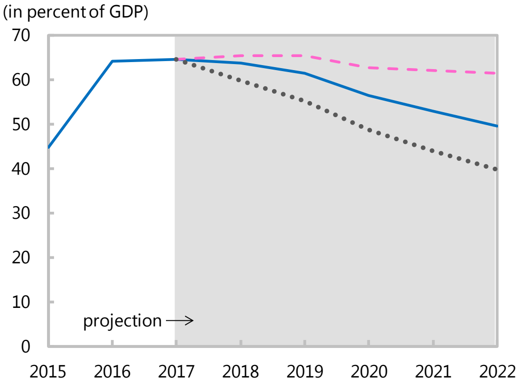
By Currency
(in percent of GDP)



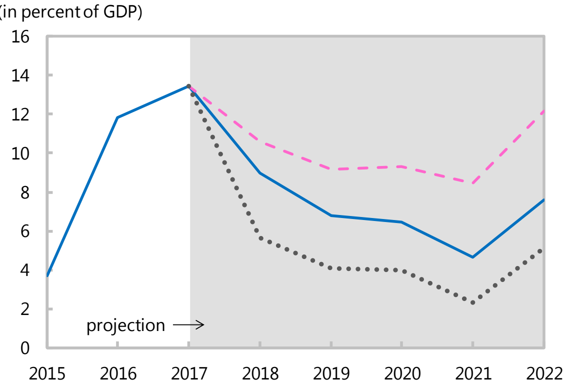
Alternative Scenarios

Baseline   Historical   Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

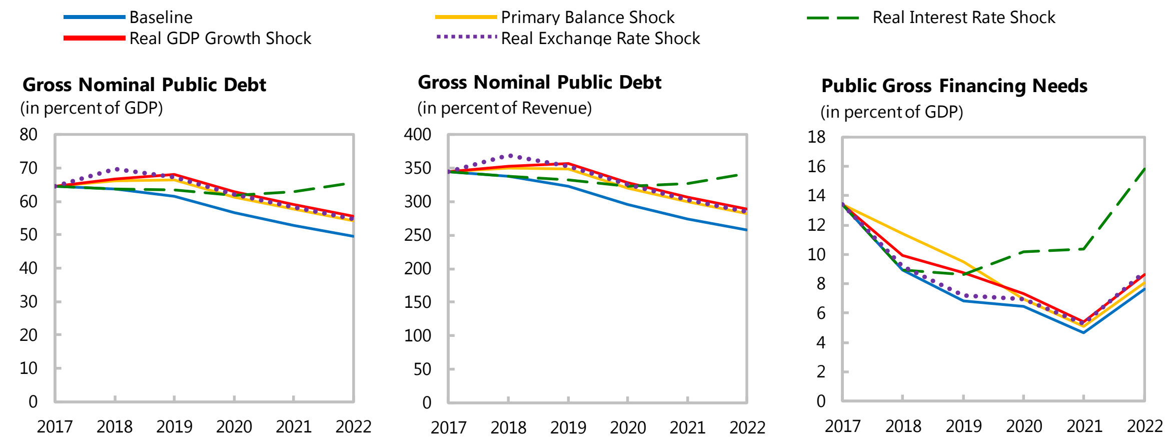
Baseline Scenario	2017	2018	2019	2020	2021	2022
Real GDP growth	1.0	2.7	4.1	4.6	4.8	5.0
Inflation	2.5	0.6	1.5	1.0	1.4	1.6
Primary Balance	-0.1	1.5	2.1	2.4	2.9	3.0
Effective interest rate	4.6	4.1	4.0	4.0	4.2	4.5
Constant Primary Balance Scenario						
Real GDP growth	1.0	2.7	4.1	4.6	4.8	5.0
Inflation	2.5	0.6	1.5	1.0	1.4	1.6
Primary Balance	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Effective interest rate	4.6	4.1	3.9	3.9	4.1	4.4

Historical Scenario	2017	2018	2019	2020	2021	2022
Real GDP growth	1.0	4.0	4.0	4.0	4.0	4.0
Inflation	2.5	0.6	1.5	1.0	1.4	1.6
Primary Balance	-0.1	4.7	4.7	4.7	4.7	4.7
Effective interest rate	4.6	4.1	4.3	4.6	4.9	5.2

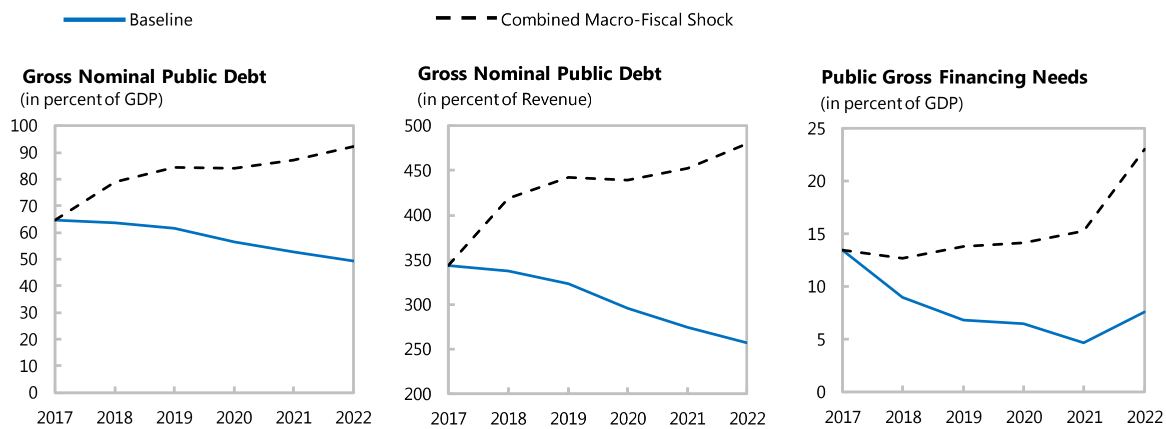
Source: IMF staff.

Figure 5. Gabon: Public DSA – Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

Primary Balance Shock	2017	2018	2019	2020	2021	2022
Real GDP growth	1.0	2.7	4.1	4.6	4.8	5.0
Inflation	2.5	0.6	1.5	1.0	1.4	1.6
Primary balance	-0.1	-1.0	-0.3	2.4	2.9	3.0
Effective interest rate	4.6	4.1	4.0	4.1	4.3	4.5
Real Interest Rate Shock						
Real GDP growth	1.0	2.7	4.1	4.6	4.8	5.0
Inflation	2.5	0.6	1.5	1.0	1.4	1.6
Primary balance	-0.1	1.5	2.1	2.4	2.9	3.0
Effective interest rate	4.6	4.1	7.1	10.0	12.6	15.2
Combined Shock						
Real GDP growth	1.0	-0.2	1.2	4.6	4.8	5.0
Inflation	2.5	-0.1	0.8	1.0	1.4	1.6
Primary balance	-0.1	-1.0	-0.3	2.4	2.9	3.0
Effective interest rate	4.6	4.7	7.4	10.6	13.2	15.8

Real GDP Growth Shock	2017	2018	2019	2020	2021	2022
Real GDP growth	1.0	-0.2	1.2	4.6	4.8	5.0
Inflation	2.5	-0.1	0.8	1.0	1.4	1.6
Primary balance	-0.1	0.9	0.9	2.4	2.9	3.0
Effective interest rate	4.6	4.1	4.0	4.1	4.2	4.5
Real Exchange Rate Shock						
Real GDP growth	1.0	2.7	4.1	4.6	4.8	5.0
Inflation	2.5	6.6	1.5	1.0	1.4	1.6
Primary balance	-0.1	1.5	2.1	2.4	2.9	3.0
Effective interest rate	4.6	4.7	4.0	4.0	4.2	4.4

Source: IMF staff.

Table 3. Gabon: External Public Debt Sustainability Framework, 2012-2022

(In percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2012	2013	2014	2015	2016	10-Year Historical Average	10-Year Standard Deviation	2017	2018	2019	2020	2021	2022	Debt-stabilizing non-interest current account 6/
1 **Baseline: External debt**	16.6	24.2	25.3	33.3	35.6			**42.4**	**47.3**	**49.3**	**47.1**	**44.6**	**42.0**	**-6.9**
2 Change in external debt	1.2	7.6	1.1	7.9	2.3			6.8	4.8	2.0	-2.1	-2.5	-2.6	
3 Identified external debt-creating flows (4+8+9)	-20.6	-12.5	-14.1	5.4	2.0			-1.3	-4.1	-6.0	-8.1	-8.3	-10.5	
4 Current account deficit, excluding interest payments	-18.5	-8.5	-8.4	4.1	8.5			7.0	5.5	4.7	0.9	-1.8	-4.1	
5 Deficit in balance of goods and services	-28.4	-17.5	-12.9	-4.5	-1.7			-3.3	-4.7	-4.5	-7.5	-9.8	-11.8	
6 Exports	64.9	61.5	54.5	43.5	36.2			42.2	41.3	40.4	41.9	42.7	43.1	
7 Imports	36.4	44.0	41.6	39.0	34.5			38.9	36.6	35.9	34.4	32.9	31.3	
8 Net non-debt creating capital inflows (negative)	-3.8	-5.1	-6.0	-6.9	-9.0			-10.1	-10.3	-10.8	-8.8	-6.2	-6.0	
9 Automatic debt dynamics 1/	1.7	1.1	0.2	8.2	2.5			1.9	0.7	0.1	-0.2	-0.3	-0.3	
10 Contribution from nominal interest rate	0.8	1.5	1.0	1.5	1.6			2.2	1.8	1.9	2.0	1.9	1.8	
11 Contribution from real GDP growth	-0.9	-0.9	-1.0	-1.2	-0.7			-0.3	-1.1	-1.8	-2.2	-2.1	-2.1	
12 Contribution from price and exchange rate changes 2/	1.8	0.5	0.2	8.0	1.6			...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 3/	21.8	20.1	15.3	2.5	0.3			8.1	8.9	8.0	6.0	5.8	7.9	
External debt-to-exports ratio (in percent)	25.6	39.3	46.5	76.5	98.4			100.5	114.3	122.0	112.4	104.5	97.3	
Gross external financing need (in billions of US dollars)	-2.7	-0.3	-1.0	1.2	1.8			2.1	1.3	1.4	0.8	0.4	0.5	
in percent of GDP	-15.5	-1.4	-5.5	8.2	13.1			14.8	9.1	8.8	5.1	2.3	2.7	
Scenario with key variables at their historical averages 5/								**42.4**	**35.8**	**29.0**	**20.1**	**10.9**	**3.9**	**-5.5**
Key Macroeconomic Assumptions Underlying Baseline														
hid Nominal GDP (US dollars)	17.2	17.6	18.2	14.4	14.0			14.1	14.5	15.4	16.3	17.3	18.4	
Real GDP growth (in percent)	5.3	5.5	4.4	3.9	2.1	4.0	2.8	1.0	2.7	4.1	4.6	4.8	5.0	
GDP deflator in US dollars (change in percent)	-10.3	-2.9	-0.9	-24.0	-4.5	0.5	16.0	-0.4	0.4	1.7	1.3	1.3	1.4	
Nominal external interest rate (in percent)	5.1	9.3	4.5	4.5	4.7	5.6	1.5	6.3	4.5	4.3	4.2	4.2	4.2	
Growth of exports (US dollar terms, in percent)	0.4	-2.8	-8.4	-37.0	-19.0	2.2	28.1	17.4	1.0	3.4	10.1	8.0	7.7	
Growth of imports (US dollar terms, in percent)	45.9	23.7	-2.2	-25.9	-13.9	7.0	20.8	13.5	-2.9	3.7	1.6	1.4	1.6	
Current account balance, excluding interest payments	18.5	8.5	8.4	-4.1	-8.5	10.4	10.6	-7.0	-5.5	-4.7	-0.9	1.8	4.1	
Net non-debt creating capital inflows	3.8	5.1	6.0	6.9	9.0	5.5	1.6	10.1	10.3	10.8	8.8	6.2	6.0	

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

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

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

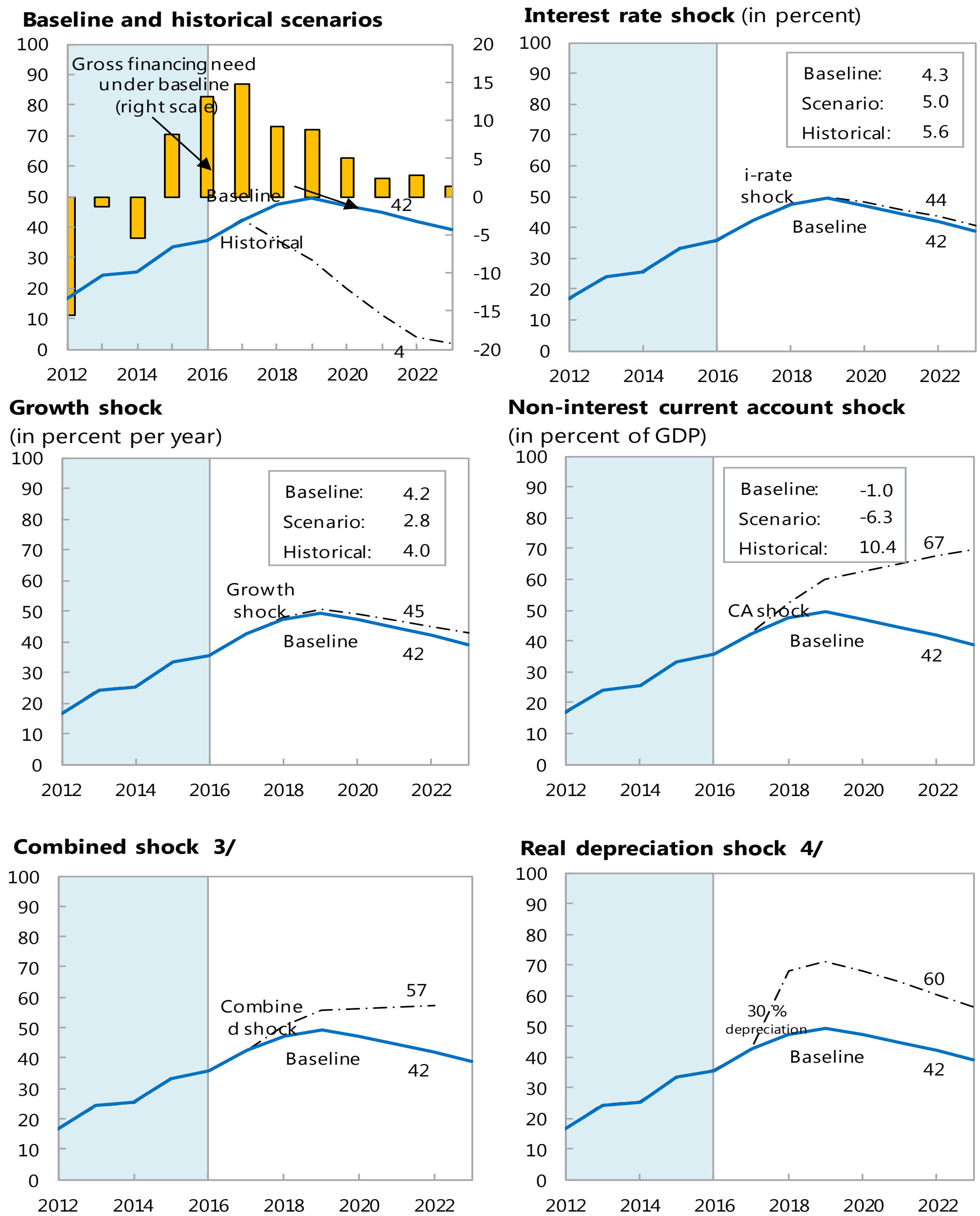
5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

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

Source: IMF staff

Figure 6. Gabon: External Public Debt Sustainability: Bound Tests[1,2]

(External debt in percent of GDP)



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

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

2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

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

4/ One-time real depreciation of 30 percent occurs in 2010

Appendix I. Letter of Intent

June 5, 2017

The Managing Director
International Monetary Fund
Washington, DC

Dear Ms. Lagarde:

1. In line with the strategy set out in the December 23, 2017 meeting in Yaoundé, the Government of Gabon, recognizing the need to face the difficult challenges resulting from the decline in oil prices, adopted a medium-term economic recovery program (*Programme de Relance Economique, PRE*) for the period 2017–19. The PRE is based on three pillars: the viability and sustainability of public finances; strengthening economic governance by improving the business climate, supporting strategic sectors, restructuring public entities, and strengthening the instruments of financing of the economy; and generating productive infrastructure investments aimed at developing the productive sectors of the economy.

2. The program aims at increasing non-oil revenue, tightening expenditure controls to ensure that fiscal adjustment is enforced, rebuilding fiscal and external buffers, promoting financial sector stability, improving competitiveness, and reducing poverty. The objectives and policies of our economic recovery efforts are presented in the attached memorandum of economic and financial policies. In support of these policies, the government of Gabon is requesting an extended arrangement under the Extended Fund Facility (EFF) in an amount equivalent to SDR 464.400 million, corresponding to 215 percent of Gabon's quota at the Fund.

3. We believe that the policies set forth in the attached Memorandum of Economic and Financial Policies (MEFP) are adequate to achieve the objectives of our program, but we will take any further measures that may become appropriate for this purpose. Gabon will consult with the Fund on the adoption of these measures, and in advance of any revision to the policies contained in the MEFP, in accordance with Fund policies on such consultation.

4. After the extended arrangement expires, and while Gabon has outstanding obligations to the Fund, we will consult with the Fund on Gabon's economic and financial policies at the initiative of the government of Gabon or at the request of the Managing Director, in line with the Fund's policies on such consultations.

5. Program implementation will be monitored through quantitative performance criteria, structural benchmarks and indicative targets as described in the Technical Memorandum of Understanding (TMU), Attachment II.

6. The government authorizes the Fund to publish this letter of intent, the memorandum of economic and -financial policies for 2017–18, the technical memorandum of understanding, and the forthcoming staff report for the request of the EFF-arrangement.

Sincerely yours,

/s/

Régis Immongault
Minister of Economy, Prospective and Development Planning

Attachments (2)

1. Memorandum of Economic and Financial Policies
2. Technical Memorandum of Understanding

Attachment I. Memorandum of Economic and Financial Policies (MEFP)

June 5, 2017

This memorandum describes recent economic developments, lays out the government's policy priorities for its Fund-supported program under a three-year extended arrangement under the Extended Fund Facility (EFF), and elaborates on economic and structural policy objectives.

I. Economic Developments and Outlook

1. **The short-term economic outlook remains unfavorable.** Preliminary data from economic surveys show that real GP growth declined from 3.9 percent in 2015 to 2.1 percent in 2016. This is a significant decline compared to the average growth rate of 6 percent recorded during the period 2010–13 (before the oil price decline). Furthermore, macroeconomic indicators suggest that if no corrective action is taken, economic activity could slow further:

- Non-oil revenues, which are strongly correlated with economic activity, were 16 percent lower than in 2015, or about 25 percent lower than forecast in the initial 2016 budget law.
- Imports, which are strongly correlated with aggregate demand, declined by 21 percent, reflecting drops in consumer goods and capital goods of 16 percent and 29 percent, respectively. Contraction in imports of capital goods reflect the slump in oil sector investment, which declined by over 80 percent, compared with the period preceding the 2014 oil price shock.
- Credit to the private sector declined by about 10 percent in 2016.
- While there are no business and consumer confidence indicators, several major economic operators are of the view that Gabon is going through one of the most severe economic crises the country has seen in recent years.

2. **The slowdown in growth is directly related to the decline in oil prices, one of the most severe exogenous shocks we have experienced in our recent economic history.** Sharply lower oil prices since mid-2014 have led to a severe deterioration in Gabon's terms of trade. Around the beginning of the decade, Gabon's non-oil sector experienced a boom owing to major public investments and positive spillovers from the oil sector. More recently, however, the prolonged oil price shock has led to a severe slowdown in economic activity and lower export revenues. Several factors explain the current economic difficulties:

- *Negative oil sector growth owing to major production wells reaching maturity or in natural decline*. The current production level is approximately 40 percent lower than the peak a decade ago, with a natural decline in production of more than 3 percent a year. In addition to the natural decline, investment in the oil sector has declined sharply since 2014, and efforts by oil companies to reduce their operating costs also had a negative impact on the services sector, including in certain strategic areas of the country, such as Port-Gentil.

- *Cumulative deterioration in the terms of trade of about 50 percent during 2014–16.* The price of Brent per barrel (to which the price of Gabon's crude is linked), which reached an average of $110 between 2010 and 2013, declined to $52 in 2015 and further to $43 in 2016. In addition, the price of manganese (Gabon is the world's fourth largest producer) fell by 17.5 percent in 2015 (to US$3.77 per dMT), causing a suspension of activities at certain sites (such as Ndjolé) and a slowdown at other (Moanda). Nonetheless, the 38.3 percent rise in prices recorded in the second-half of 2016 (US$ 4.3 per dMT) should lead to a recovery of production.

- *The exogenous shock described above led to a sharp dip in export receipts and fiscal revenue.* Total government revenues averaged CFAF 2,700 billion per annum in 2013–14 (equivalent to US$5.4 billion per year), and fell to about CFAF 1,400 billion in 2016 (equivalent to about US$2.4 billion). This represented a loss of almost 15 percent of total GDP (or 29 percent of non-oil GDP). However, an increase in the value of exports is expected in 2017, despite the continued weakness of oil prices, driven mainly by mining, agriculture, and forestry.

- *Despite the government's efforts to contain the shock, public procurement declined by almost two thirds between 2013 and 2016.*[1] Public expenditure (excluding wages and interest payments) declined from CFAF 2,300 billion in 2013 (equivalent to about US$4.7 billion or 59 percent of non-oil GDP) to CFAF 900 billion (21 percent of non-oil GDP) in 2016.

- *Government's indebtedness, including arrears on expenditure and debt service, increased sharply in 2016.* Public debt is estimated to have reached approximately 64 percent of GDP in 2016, rising by over 30 percentage points since 2013—the year prior to the onset of the oil price shock. This increase is partly explained by the inclusion of previously unrecognized items such as arrears on VAT reimbursements, arrears on payment orders (budgetary float), and drawings of statutory advances. As such, domestic debt rose by 20 percentage points to 26.8 percent of GDP in response to heightened financing needs, including outstanding government securities of 11.9 percent of GDP, central bank statutory advances of 5.4 percent, and the accumulation of a stock of domestic arrears of 7.7 percent of GDP. External debt remains at a relatively moderate level of 37.4 percent of GDP.

- *Given Gabon's dependence on the oil sector, the shock also brought about a slowdown in public and private consumption and investment as well as a reduction in external trade.* Although the impact has been particularly strong for sectors such as trade and government activities, other sectors relatively far removed from the oil sector, such as agriculture and industry in the special economic zones, continued to see strong growth.

3. **Inflation rose from approximately -0.1 percent (on average) in 2015 to 2 percent in 2016, which remains in line with the convergence criterion of the CEMAC.** With the introduction

[1] This is a decrease of two-thirds in nominal terms, or 60 percent in real terms.

of an automatic fuel pricing mechanism in early 2016, the rise in inflation to 4.1 percent at the end of December was triggered in the second half of the year by the increase in international oil prices.

4. GDP growth is expected to decline to 1 percent in 2017, hindered by the fall in oil production and a sharp downturn in the construction and services sectors.

- Despite a 25 percent rise in the price of oil per barrel on the international market, Gabon's oil sector is expected to contract by 2 percent in 2017, reflecting a dip in production and limited exploration activities. Non-oil growth is expected to slide from 3.3 percent to 1.7 percent, but this rate masks significant sector differences.

- Fiscal adjustment described above is likely to have a significant impact on the sectors that are directly or indirectly related to government activities, including construction, trade, banking services and others (including some oil-related sectors). Real growth in these sectors is expected to slow from 4 percent in 2016 to -1 percent in 2017.

- However, growth in agriculture and commodity-related sectors (which account for approximately one-sixth of the Gabonese economy) is expected to pick up, supported by ongoing large-scale private investment. This includes maturing projects in the production of manganese (of which Gabon is one of the largest producers in the world) and the development of one of the largest agro-industrial projects in Sub-Saharan Africa.

5. Gabon's medium-term economic outlook is more promising. The government's Emerging Gabon Strategic Plan (known as the PSGE) and numerous efforts to diversify the economy are already producing tangible results. The creation of new companies in the mining sector, the start of the local transformation of part of manganese production, strategic investments in the special economic zone (SEZ), and the success of major partnership programs between the government and the private sector (such as OLAM) have spurred structural transformation which would make Gabon's economy more resilient. With the gradual diversification of the economy, real GDP growth is expected to pick up gradually to 4–5 percent, in line with historical averages. Thus, Gabon has the potential to become a model for economic transformation in Sub-Saharan Africa.

6. The external current account deficit should begin to decline in 2017, as major export-oriented projects come on stream.

- During the period 2014-16, oil and manganese prices, the two main export commodities, fell by more than 50 and 20 percent, respectively. The deterioration in the current account was partly kept in check by a drop in the imports linked to these key sectors. Nonetheless, the sharp deterioration of the current account induced the overall balance of payments into deficit territory, which resulted in substantial pressure on international reserves.

- Customs statistics show a contraction of consumer and capital goods, on the order of 22 and 39 percent in 2016, respectively, confirming the slowdown in domestic demand. However, a series of large, export-oriented investment projects are being developed and may help to mitigate this decline.

- The expansion of manganese production will double capacity from the current 3.5 million tons to 6.3 million tons by 2019. On the private-sector side, agriculture (palm and rubber production) and projects related to OLAM fertilizer will be decisive in boosting exports. Lastly, OLAM's foreign direct investment (FDI) inflows, which already exceed US$1 billion, is expected to reach about US$5 billion by 2021. These developments, combined with the transitory budget support by bilateral and multilateral partners, will strengthen the overall balance of payments and boost Gabon's reserves.

7. **Monetary conditions have become tighter**. **In 2016, the monetary base and credit to the private sector contracted by 9 percent and 10 percent, respectively.** The reduction in credit to the private sector is a result of the general slowdown in economic activity since the oil shock, the deteriorating business climate, the elevated level of non-performing loans, and exposure to potential government payment arrears.

8. **The fiscal position deteriorated in 2016, as a sharp decline in revenues was only partly offset by cuts in primary expenditure.** The non-oil primary fiscal deficit reached 11 percent of non-oil GDP in 2016, up from 9 percent in 2015. On the revenue side, oil and non-oil revenues declined by 4.1 and 3.6 percentage points of non-oil GDP, respectively. On the expenditure side, total outlays declined by 2.6 percentage points of non-oil GDP, as efforts to cut current spending (including the elimination of most subsidies on oil products) were offset by one-off factors, such as the organization of the 2016 general elections and playing host to the African Cup of Nations soccer tournament.

II. Fiscal Policy

9. **Fiscal policy aims at reducing the overall fiscal deficit (on a cash basis) from 6.6 percent of GDP in 2016 to 4.6 percent in 2017, and the non-oil primary deficit from 11 to 8.9 percent**. Over the medium term, during the period covered by the Fund-supported program (2017–2020), the overall budget deficit is expected to fall by more than 6 percent of GDP, with the objective of posting an overall surplus by the end of the Fund-supported program (2020). This overall deficit level is expected to reduce the level of public debt to 57 percent of GDP at the end of the Fund-supported program, and facilitate a further decline to below 50 percent within 6 years. At the same time, a non-oil primary deficit of less than 4 percent reflects the gradual depletion of oil resources and the need to save a portion of oil revenues to meet the needs of future generations and to respond to potential exogenous shocks. The narrowing of the budget deficit should also (i) contribute to regional adjustment to reverse the trend loss of foreign exchange reserves of the CEMAC; (ii) avoid a further accumulation of arrears and make it possible to reimburse existing arrears over a period of 3-5 years; (iii) help significantly reduce domestic government borrowing; and (iv) increase government deposits at the central bank, including those of the Fund for Future Generations (FFG). This fiscal policy is also based on two additional fiscal principles (or rules):

- To ensure tighter expenditure control and avoid the accumulation of arrears, the government will impose a ceiling on 2017 unpaid payment orders at the level of the Treasury to 10 percent of expenditure (excluding salaries, debt payments, and externally-financed capital spending). The implementation of this measure should not result in longer time delays between expenditure commitments to payment orders.

- The government also commits to transfer 5 percent of 2017 oil revenues to the FFG or the Stabilization Fund. This percentage will gradually increase to 20 percent, as set out by the new budget rule of the CEMAC.

10. To address potential fiscal risks arising from the difficult, short-term macroeconomic environment, the following prudential measures have been put into place:

- The budget law will include a clause that will identify public investment projects totaling to at least CFAF 40 billion (including the legal reserve of 5 percent) that will be subject to postponement or cancellation if revenue shortfalls threaten the achievement of the fiscal targets.

- A plan to mobilize additional privatization revenues will be prepared. Privatization revenues above the Fund-supported program level may be used to offset higher financing needs due to lower-than-expected budgetary revenue collection and/or an acceleration of debt/arrears repayment.

- The government will take further revenue and expenditure measures as required to meet its budgetary targets and limit the increase of indebtedness.

11. The government has tabled in Parliament a revised budget law on the date of signing of this memorandum. This budget law includes the requisite revenue and expenditure provisions to achieve the government's 2017 fiscal policy objectives and in line with the parameters of the program (prior action).

Non-oil Revenue Mobilization

12. The government is taking steps to improve the mobilization of non-oil revenue. The recent decline in non-oil revenues accelerated in 2016, owing to the effect of the slowdown in economic activity. To strengthen revenue collection efforts, the government has begun to explore ways of increasing tax compliance, broadening the tax base, streamlining fiscal expenditure and tax and customs exemption schemes, and modernizing filing and payment procedures. In 2017, revenue measures are expected to achieve at least 0.7 percent of GDP in net yields.

13. Measures to boost tax compliance and combat tax evasion will be reinforced. Campaigns to raise awareness and encourage compliance among taxpayers operating in markets and commercial zones will be stepped up, as will campaigns to encourage economic agents to register for VAT. More specifically, measures aimed at improving tax compliance by large- and medium-sized enterprises include: (i) enhancing monitoring and data exchange with third parties through improved interconnection of the IT systems of the tax and customs directorates, as well as other directorates; (ii) risk-based scheduling of tax audits, (iii) improved management through the implementation and effective use of management indicators; (iv) strengthening of the withholding of personal and corporate income taxes for non-residents through the use of bank accounts; (v) easing regulation on the importation of used vehicles; (vi) reduction of the number of basic products exempted from the VAT; (vii) taxation of the right of exit of manganese at the FOB value; and (ix) a 5 percent export tax rate on the FOB value of gold and gold dust. As a first step, the Directorate General of Customs will carry out eight ex-post on-site customs inspections by end-2017.

14. Modernized tax filing and payment procedures will be introduced. Electronic procedures will be rolled out to encompass all taxes. An e-tax platform enabling taxpayers to file and pay their taxes online will be rolled out and become fully operational by end-2018. The "Mobitax" project will be implemented at the same time to offer taxpayers the option of paying their taxes by cell phone.

15. The tax base will be broadened via a reduction of special tax regimes and exemptions, particularly on VAT. The government will prepare an inventory of all special tax regimes and exemptions granted in the areas of tax and customs, aided by a study completed by the World Bank. This exhaustive inventory will enable an assessment of tax expenditure and to present this information in the budget law. The government will use the outcome as a basis to propose a program to reduce exemptions and special tax regimes. Regarding the VAT, a specific appendix will be included in the 2018 budget law detailing the changes made to the existing exemption schemes as well as their economic, fiscal, and social impact (end-December 2017 structural benchmark).

16. The administrative management of tax and customs revenues will be improved through the creation of a revenue authority. The revenue authority will group together the tax and customs administrations. It will be effective by the end of 2018.

Expenditure Measures

17. The 2017 revised budget law envisages measures to control expenditure. These include:

- A reduction of the wage bill by 0.5 percent of GDP through systematic retirement of about 1,200 civil servants who have reached retirement age; updating of payroll records; a freeze on recruitment of civil servants, except for the priority social sectors (education and healthcare); an audit of those receiving housing grants and transport allowances; wage controls for senior officials, representatives of government organizations, and those in cabinet positions; an audit of personnel compensation in government institutions; and identification of nonexistent officials still on the payroll.

- A reduction in expenditure on goods and services by 0.8 percent of GDP through the elimination of a one-off factor (hosting of the African Nations Cup soccer tournament), introduction of a central purchasing office for government's current expenditures, creation of a government real estate unit (*Gabon Patrimoine Immobilier*) to streamline government leases, efforts to revitalize the water and energy efficiency program (*Efficacité Eau et Energie*) to gain tighter control over government water and energy consumption and expenditure, and tighter other administrative controls.

- A reduction in transfers by 0.7 percent of GDP through streamlining and reduction in the budget for personalized government services, withdrawal of the flour subsidy, a return to a merit- and means-based allocation of education grants, and cuts in subsidies for refinery activities and refined product prices (following the liberalization of the sector).

- Regarding public investment, efforts will focus on improving management of expenditure, while continuing to support the development of productive sectors, infrastructure and the supply of public services, as well as the security and defense sectors.

III. Managing Arrears

Strategy to Clear Arrears

18. The stock of arrears at end-2016 amounted to 9.7 percent of GDP. Arrears to external and domestic creditors were 2.0 percent and 7.7 percent of GDP, respectively. The latter are broken down as follows: arrears on debt service on domestic debt were 0.5 percent of GDP, VAT refunds arrears were 4.2 percent of GDP, and treasury arrears, including budgetary float (expenditure for which a payment order has been issued but not yet paid), amounted to 3.0 percent of GDP.

19. A strategy for the full repayment of arrears will be implemented over the Fund-supported program period:

- Arrears on external debt will be paid by December 2017. External arrears to bilateral creditors will be cleared prior to the first program review.

- VAT arrears will be paid over a four-year period, from 2017 to 2020 (CFAF 87 billion per year).

- Moratorium debt will be paid over a four-year period from 2017 to 2020.

- The budgetary float (or expenditure arrears) will be paid over a two-year period, 2017 and 2018.

Identification of Extra-Budgetary Expenditure Arrears

20. Extra-budgetary expenditure may have resulted in arrears that have not been accounted for. In 2016, the government set up a commission to carry out an audit to identify expenditures incurred by the government, but not yet paid or recorded in the fiscal accounts. To that end, CFAF 250 billion of expenditure arrears were validated and led to agreements with the affected firms that recognize these arrears as moratorium debt. However, the audit covered only expenditure incurred by the central government up to December 31, 2014 and did not cover possible extra-budgetary expenditure incurred by public institutions.

21. An audit of unaccounted extra-budgetary expenditure by the state and public institutions will be conducted for fiscal years 2015 and 2016. The government will audit extra-budgetary expenditures incurred during the period 2015–16, with a view to obtaining an exhaustive assessment of the potential fiscal risks. The audit will be performed by an independent service provider, and will cover expenditure by the government and public institutions. A government structure will coordinate and follow up the different stages of the process. The government will draw up the specifications to recruit an auditor through a call to tender. The audit will consist of: (i) collecting the necessary information from companies and vendors using a specific format that will make it possible to identify each debt with precision; and (ii) verifying the existence of a debt by examining the supporting documentation and performing additional on-site and off-site analyses based on clearly defined criteria (e.g., material evidence of the service provided, existence of a public interest, absence of fraudulent behavior to obtain or execute the contract, etc.). The audit process, including the criteria used to validate the debt, will be made public in several stages. The audit report and findings will be published by March 2018 (structural benchmark).

Measures to Prevent the Build-Up of New Expenditure Arrears

22. To gain tighter control over the stock of expenditure arrears, the budgetary float will be limited. The government is committed to maintaining the annual budgetary float at less than 10 percent of total expenditure, excluding wages, interest payments and externally financed investment. To this end, expenditure commitments will be regularly monitored and the procedure for executing expenditure will be made compliant with the provisions of Decree No.0094/PR/MBCP of February 8, 2016 on the General Government Accounting Regulation (RGCP). Priority will also be given to updating the related regulations of the organic law, with a view to providing a stable legal framework for expenditure execution. The Government therefore undertakes to specify the procedure for the execution of expenditure in an implementing text of the RGCP, defining the role of the actors and the conditions for implementing the exceptions provided for by the regulations and repealing any previous provisions (prior action). The development of the VECTIS application is also essential to strengthen systematic monitoring and control of all stages of the administrative phase of expenditure execution. The VECTIS application currently covers approximately 80 percent of all appropriations. By end-June 2017 (structural benchmark), the government is committed to: (i) developing the VECTIS application to monitor expenditure commitments and allowing for the systematic issuance of purchase orders; (ii) requiring suppliers or vendors to produce a purchase order issued by VECTIS before issuing a payment for the goods or services provided; (iii) communicating with businesses via press advertisements, and with service providers through training, to raise awareness of the new expenditure execution procedures. At the same time, the Directorate General of Budget and Public Finance will continue to roll out VECTIS throughout the country.

23. A pilot program to avoid the accumulation of expenditure arrears will be put in place. A system of follow up on the deadlines for the various phases of the expenditure execution cycle (commitment, validation, authorization, and payment) will be set up using the information systems available to the Directorate General of Budget and Public Finance and the Directorate General of Public Accounting and Treasury (VECTIS and DC). The circular issued by the Budget Ministry on January 29, 2012, establishing payment deadlines by type of expenditure, will be updated based on the deadlines established by the CEMAC to define the concept of arrears, i.e., expenditure for which the corresponding payment is not made within three months of the authorization date. Quarterly reports will be produced and published to illustrate the change and composition of the stock of the budgetary float and expenditure arrears (structural benchmark, end-September 2017). Lastly, a Treasury Committee will be reactivated to monitor the stock and take the appropriate measures.

IV. Other Public Finance Objectives

Public Expenditure Management

24. The government will continue to implement public finance management reforms initiated in 2015. The legal framework for public finance management in Gabon has been overhauled since 2015, including the transposition into national law of all the CEMAC directives establishing a harmonized public finance management framework. For example, the implementation of the Organic Law on Budget Laws and Budget Execution (LOLFEB) made it possible to present and execute the 2015 government budget on a program basis, significantly improving the readability and the quality of the budget. Work is continuing to ensure that all the LOLFEB provisions are adequately applied, especially those that had been scheduled to take effect on January 1, 2015, but which require additional work. To this end, a template for quarterly budget execution report has been prepared, along with a sample decree designed to inform Parliament of virements and transfers during the fiscal year. These reforms will be finalized by performing the following actions:

- Production and publication of quarterly budget execution reports in Parliament pursuant to Article 83 of the LOLFEB;
- Applying the provisions of Article 45 of the LOLFEB relating to transfers and virements of appropriations during the fiscal year;
- An inventory of government assets to prepare the implementation of accrual accounting.

25. The government will continue to carry out reforms to implement CEMAC directives, particularly those concerning the TOFE Directive. The rules set out in this Directive will be applied to strengthen transparency and the quality of reporting on financial transactions and to facilitate convergence with other CEMAC member states. The introduction of these rules may eventually lead to changes in the current TOFE format.

26. The government will step up its efforts to improve budget transparency and exhaustiveness by reintegrating all government bodies into the budgetary accounting system. Since 2016, three earmarked revenue accounts (pensions, family and social benefits, and sports promotion) have been included in the government budget, which hitherto had been handled in an extra-budgetary manner without authorization under the budget. This measure has significantly improved budget coverage by facilitating the traceability of expenditure linked to earmarked revenues. The government will step up this effort during FY2017 by identifying activities financed by earmarked revenue carried out by independent legal entities but not authorized under the budget law. Expenditure financed by revenues allocated to the Universal Service of Telecommunications (*Service universel des communications*), the public enterprise for cinema (*Promotion audiovisuelle et cinématographique*), and the National Council for Water and Electricity (*Conseil National de l'Eau et de l'Electricité*) will be covered by the 2018 budget law.

27. The performance of the public procurement unit will be enhanced by strictly limiting single tenders to the conditions laid down in the texts. The public procurement code provides for the use of single tenders as an exception and not the rule. Reasons for the use of single tenders are outlined in the code and pre-approved by the government body tasked with monitoring public procurement and ensuring that single tender procurement contracts do not exceed 15 percent of total annual procurements. The provisions of the code, notably the general principles of competition, transparency, and the exceptional nature of contracts awarded outside of competitive processes, were highlighted in, a circular was issued by the Prime Minister's office to all managers at the beginning of 2016. The Public Procurement Directorate will fully exercise its rights by systematically blocking single tenders that do not conform with the rule. Henceforth, the use of single tenders will be justified in annual reports published by the Public Procurement Directorate. This report will cover public procurement statistics, including details of all single tender contracts by type and amount, and reasons for the exceptions made. Sanctions outlined in the regulations will be strictly enforced. The objective is to comply with the legal rate, with single tender procurement contracts not exceeding 15 percent of total annual procurements.

28. Public investment projects will be better managed through preparation and publication of upstream economic analyses of major projects. The government is committed to preparing cost-benefit analyses to support its public investment decisions. Consequently, each project exceeding CFAF 20 billion included in the budget will be subject to such analysis. These analyses will be attached to the 2018 budget law, with details of public procurement projects included in the appendix (structural benchmark, end-December 2017). The Office for the Coordination of the Emerging Gabon Strategic Plan has taken steps to prioritize infrastructure projects, and integrated this information into the economic recovery program. A three-year plan of selected projects will be attached to the 2018 budget law. To streamline the management of infrastructure projects and improve efficiency all infrastructure projects proposed by ministers will be vetted by the national agency for major infrastructure projects (*ANGTI*). As of 2017, meetings to prepare the budget law will examine only those infrastructure projects selected for inclusion in the economic recovery program.

29. The government is committed to strengthening the financial surveillance of public companies and government agencies. The Gabonese Strategic Investment Fund (FGIS), created in 2012, has made progress in improving the monitoring of government holdings. Its scope is now expected to be extended to all government agencies. As such, the 2020 budget law will include an appendix outlining the financial risks related to public companies and government agencies. It will also include a report on the latter's financial statements. To make this possible, the government will make sure that it systematically receives annual financial statements in a timely manner, including the agencies' provisional budgets. The government will also ensure that board meetings are held, and that it is systematically represented at these meetings by duly mandated representatives. A decree will also be published to establish a harmonized status for administrative public institutions, and to specify the conditions for exercising technical or financial oversight. A specific unit will be created within the Budget Ministry to oversee the financial surveillance of public establishments of an administrative nature benefiting from state subsidies in conjunction with technical oversight by end-2017. The establishment of this unit is underway with the support of AFRITAC Center.

Social Sector Policy

30. As part of the Fund-supported program, we are committed to protecting expenditure in the social sector and to redirecting a portion of our budget resources to this area. Our main objective is to ensure that expenditure in the priority sectors (healthcare, education, and social protection) are used as leverage to promote continued investment in our human capital, and to protect the most vulnerable members of the population from the fiscal adjustment required to re-establish external stability. In the healthcare sector, priority will be given to preventative measures (including vaccinations, preventative care, supply of key drugs, etc.), primary healthcare facilities and the fight against AIDS. Regarding education, we will focus on preschool, primary and secondary education. and the proper functioning of schools, including those in remote regions. Work is underway with the support of the World Bank to rationalize personnel-related expenditure to better respond to identified needs, improve recruitment processes, and strengthen monitoring of the expenditures per mission and sector. Lastly, on social protection, we will focus on health insurance and social assistance programs for the least well-off. The provisional stages of this program are described for information purposes in the attached table, and social expenditure (including adjustments) is detailed in the Technical Memorandum of Understanding (TMU). We will work closely with the World Bank to monitor developments and develop our capacities in this area.

V. Strengthening the Financial Sector and Access to Financing

31. Financial sector conditions have significantly deteriorated since 2014, due to the direct impact of the weakening of the government's fiscal balances. A combination of two factors has led to lower solvency of economic agents: the fall in public procurement[2] and the accumulation of

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[2] Government spending on goods and services declined from CFAF 420 billion in 2013 to CFAF 152 billion in 2016, and capital expenditure decline from CFAF 1,323 billion to CFAF 403 billion over the same period.

arrears by the government. Given the significant role of the State in the Gabonese economy, these two elements have a major impact on bank customer activities.

32. In 2016, credit to the private sector and deposit taking fell by 10 and 1.3 percent, respectively. Total loans granted by banks were up 6.1 percent over the year (CFAF 1,765 billion), driven essentially by the very steep increase in credit to the public sector, which rose by 47.1 percent (CFAF 640 billion). Conversely, credit to the private sector fell to CFAF 1,126 billion. Deposits fell by around 1.3 percent over the year to CFAF 2,077 billion. Although deposit levels rose in the first half of 2016, they declined at an annualized rate of more than 7.7 percent in the second half, due to the fall in government procurement and the increase of arrears.

33. The rate of loans in arrears[3] increased significantly from 5.3 percent of gross loans in the first half of 2014 to 9.7 percent in December 2016. Many bank customers have had difficulty adjusting to the fall in public procurement and/or nonpayment by the government and are facing cash flow constraints that prevent them from honoring their bank commitments.

34. Bank's liquidity situation has deteriorated. Although Gabonese banks continue to comply with the prudential liquidity rules (except for the three distressed state-owned banks), the decline in deposit taking coupled with the overall increase in credit to government, has led several banks to approach the central bank for refinancing. While information on bank profitability at end-December 2016 is not yet available, preliminary indications are that banks remained profitable.

35. The situation of the three public banks continued to deteriorate with no prospects of becoming viable. The very weakened situation of the public banks, which predated the current crisis, is the result of inappropriate development models. These banks were placed under administration by the Central African Banking Commission (COBAC) and are currently awaiting a decision by the monetary authorities regarding their future.

36. A strategy to enable banks to be better able to absorb the economic shock and to contribute to the financing of the economy will be implemented. While repayment of government arrears will strengthen the position of various enterprises and, thus, indirectly the position of banks, it will not be enough to solve either the problem of increasing bank arrears or reduce the level of arrears that are unrelated to the crisis (estimated at 5 percent of gross loans). The government along with all the parties concerned (Ministry of Economy, Ministry of Justice, COBAC and Professional Association of Lending Institutions) are committed to conducting a full analysis of the framework for dealing with nonperforming loans, with a view to establishing a workable national strategy. The strategy, which will identify the main problems and priorities and determine the actions to be taken, will be finalized by September 2017 (structural benchmark). It will focus primarily on improving procedures for the realization of mortgage guarantees, improving financial information, and strengthening banks' risk management.

[3] Overdue accounts receivable cover all payment arrears from the first day these are overdue. Payment arrears exceeding 90 days represent 70-85 percent of the total amount of outstanding overdue accounts receivable.

37. The Minister of Economy recently presented a plan to COBAC to begin to address the difficult situation of the three public banks. In response, COBAC stated that the plan needs to be further strengthened to improve its viability. In this context, the government is committed to preparing a more detailed plan, setting out proposals for the resolution of the ailing banks by end-July 2017, with a view to preserving financial stability and protecting depositors, and consideration for budgetary cost and potential for moral hazard (structural benchmark). To this end, we commit to (i) ensuring that these banks do not become a continuing source of budgetary losses; (ii) considering the social role played by these institutions in the elaboration of our proposals.

38. The central bank will put in place a series of reforms aimed at strengthening the banking system and monetary policy at the regional level. These reforms will be presented in a Letter of Policy Assurances prepared by BEAC. The government is also aware that the success of its program is also dependent on the actions of other countries in the CEMAC monetary union, including through adequate burden-sharing of adjustment efforts and by preventing free-rider problems. Gabon has been particularly active in regional fora regarding the need to articulate a well-coordinated policy response and will continue to play its role in this regard. Furthermore, in parallel to the actions that we intend to take, COBAC will also strengthen the implementation of banking regulations, work with us to devise a strategy for the treatment of arrears, strengthen the microfinance framework, and update the regulations. The central bank also intends to adjust its policy on bank financing to foster the development of the interbank market.

VI. Business Climate and Diversification

Key Areas of the Economic Reform Program

39. The steep drop in oil prices, coupled with maturing oil fields, calls for concerted efforts to support the structural transformation of the Gabonese economy. Diversification is essential to relaunch our economy and promote employment, while a sizable fiscal adjustment is needed to respond to the consequences of the trade shock. Our objective is to diversify our economy over the medium term, while maintaining sound management of our natural resources to meet the needs of future generations. In the short-term, our plans rest on two pillars. First, we are committed to strengthening financial stability and ensuring that our financial system can play a strong role in support of the private sector. Second, we plan to implement structural and institutional reforms to improve the regional attractiveness of Gabon’s business environment. Our efforts in this regard are guided by the PRE.

40. The structural reform plan covered by the PRE aims at ten specific areas in which we are seeking to promote competitiveness and sustainable growth. These are: (i) modernization of the forestry sector; (ii) raising the productivity of our agriculture and “livestock” sector; (iii) promotion of industrial fishing; (iv) enhancing the mining sector value chain, by creating a metallurgical center in Moanda; (v) strengthening the public-private partnership framework to support public works and social housing; (vi) creation of the conditions for broadening and expanding the use of mobile and internet banking; (vii) development of the tourism industry;

(viii) improvement of the transportation network to reduce its costs and improve business logistics for Gabonese enterprises; and (ix) increase the supply of electricity (to 789 MW) and water (to 140,000 cubic meters, particularly in Libreville). Lastly, even though the weight of the petroleum sector in the economy is gradually declining, there are still potential sources of development to be tapped through expansion into offshore deep-water exploration and higher natural gas production.

41. To support progress in these specific areas, a concerted effort needs to be made to improve the business climate. This is a vital prerequisite for enabling the private sector to play its role as the engine of growth, while the government focuses its attention on establishing the institutional and legal framework and on creating incentives for private enterprises. Under the Fund-supported program, we are committed to finalizing the reforms to facilitate access to land titles and boost public-private partnerships (PPPs), streamlining the procedures for granting building permits, and strengthening the production of statistics to enhance our macroeconomic management capacity. The specific measures that will play a catalytic role in our overall strategy are as follows:

- *Land titles*. Gabon is endowed with a vast and very fertile land area that could support the development of broad-based economic growth, as demonstrated by the SEZ. For these lands to plan a key role in our economic fabric, the country needs to have a modern and efficient land registry to facilitate access to bank financing. A comprehensive mapping of land occupancy and land use has been completed and incorporated into the national land use plan (*Plan National d'Affectation des Terres*—available online at www.pnat.ga). This important step must now be complimented by an adjudication process that will enable the government to finalize the allocation of land for specific economic purposes. The next step consists of establishing the commission responsible for the regulation of natural resources, land allocation, and dispute settlement. A draft decree has been prepared specifying the committee's organizational and functional arrangements. We are committed to completing the next steps: (i) setting up the Commission by approving the decree (by July 2017); (ii) begin settlement of existing land disputes (by March 2018); and (3) approval of the national master plan (by June 2018).

- *Public-Private Partnership (PPP)*. Under constrained budgetary circumstances due to the fall in the price of oil, a cultural shift is required of managers to make the best use of public financial resources, Ensuring the integrity of the expenditure chain is therefore a priority. In addition, we are committed to strengthening the legal framework governing PPPs. The Order establishing the legal framework for PPPs was approved in 2016. The National Investment Promotion Agency is responsible for setting up the PPP Committee, which will be entrusted with steering the implementation of the framework for new projects. Mindful of the fiscal risks associated with PPPs, the committee will be under the tutelage of the Ministry of Economy. Notably, it will be responsible for ensuring compliance with the rules set in the Order with respect to the use of a competitive process for the selection of private sector service providers. The next step consists in approving the enabling decree specifying the agencies responsible for evaluation, validation, and monitoring. This step is expected to be completed by end-September 2017 (structural benchmark).

- *Arbitration Chamber*. In 2015, we created the Arbitration Chamber, an important step to avoid excessive recourse to the court system in cases where the parties have the option of choosing out-of-court negotiation or for litigation involving small amounts. However, this reform has had only a small impact in practice as the Arbitration Chamber does not yet have a physical location in which to meet and the private sector has not been properly informed of its establishment. At the end of July 2017, we are planning to launch a far-reaching information campaign to publicize the Arbitration Chamber, in partnership with the Chamber of Commerce. We expect to inaugurate the premises by end-September 2017.

- *Building permits*. The long, complex and discouraging process to acquire a building permit in Gabon is a major obstacle for foreign investors and businesses in general, as shown by our 'Doing Business' indicator. It hampers businesses' capacity to draw up reliable business plans and negotiate bank loans, where needed. As part of the Fund-supported program, we will take steps to first reduce the average time required to obtain a building permit from 330 to 100 days before end-December 2017.

- *One-stop shop*. Progress has already been made in this area. A one-stop shop is already fully operational in Libreville, and can be used to carry out the administrative procedures necessary to set up and launch a new business. Another one-stop shop is currently being set up in the Nkok industrial zone. At this shop, foreign investors will have access to a customized service to fast track all immigration and labor-related formalities. We are committed to ensuring this one-stop shop is fully operational by end-June 2017. In addition, the ANPI (national agency for investment promotion) has opened a center at the Libreville airport to welcome and 'on-board' incoming foreign investors. Regular business surveys to measure the center's impact on the quality of service provided will be carried out. We are aware that this reform will only produce results if the private sector is well informed of the services on offer. We will therefore launch an information campaign between by June 2017 in conjunction with the Chamber of Commerce to present the facilities available to private sector companies.

- *Production of statistics*. In the current challenging economic environment, we should strengthen our internal capacity for macroeconomic management through better coordination and the exchange of appropriate and relevant information between the various government agencies as well as the BEAC. One of our priorities is to make progress in carrying out frequent surveys of businesses to cover their domestic commercial operations and foreign transactions (imports and exports, changes in FDI, and foreign loans). To this end, the Minister of Trade will issue regulations by end-June 2017 requiring all businesses registered in SEZs to submit statistics as a legal requirement to operate.

42. To increase transparency in the management of oil revenues, the effort to join the Extractive Industries Transparency Initiative (EITI) will continue. The decree establishing the EITI Interest Group was signed in December 2016, and formally published in January 2017. The end goal is to produce a report within the required timeframe to be validated by the EITI Secretariat.

Supporting High-Level Public-Private Dialogue

43. In addition to the specific measures to improve the business climate and support structural reforms, the government is committed to creating and overseeing a platform for high-level, public-private dialogue. This dialogue is essential for guaranteeing support for crucial reforms which until now have been delayed owing to ongoing and significant resistance.

44. Against this background, a high-level council for investment (HCI) was established in February 2014 under the tutelage of the President of Gabon. The HCI has been given the initial task of improving competitiveness and promoting economic diversification. It will also support more active dialogue between the national authorities and the private sector regarding strategic reforms to improve the business climate. Following the first HCI meeting, the government recognized that efforts must now focus on meeting the expectations of entrepreneurs and financiers with concrete investment plans. To this end, we are committed to making the HCI operational, by adopting (i) its internal by-laws, and (ii) a detailed action plan to implement reforms enhancing efficient business regulation. Technical assistance from the World Bank will be essential.

VII. Program Monitoring

45. Program implementation will be monitored through prior actions, semi-annual reviews, quantitative performance criteria and indicative targets, continuous performance criteria, and structural benchmarks. The first review is set for December 2017 based on end-June 2017 quantitative targets, the continuous performance criterion and taking into consideration relevant structural benchmarks, and the second review is set for June 2018, based on end-December 2017 quantitative performance criteria, the continuous performance criterion and relevant structural benchmarks. For all reviews, quantitative performance criteria will include: a floor on the primary fiscal balance, excluding oil revenue (on a payment order basis); a ceiling on the stock of net claims of the banking system on the central government; a ceiling on central bank net claims on central government, excluding the use of IMF credit; a ceiling on contracting or guaranteeing of external debt (program and project); and a ceiling on the accumulation of new external arrears by the central government. The prior actions and structural benchmarks are set out in Table 2. The quantitative targets for target dates through end-June 2018, along with a continuous quantitative performance criterion are set out in Table 1.

Table 1. Gabon: Quantitative Program Targets, 2017-2018[1,2]

(Billions of CFA francs, unless otherwise indicated)

		2016	2017				2018	
		December Prel.	March IT[3]	June PC	September IT	December PC	March IT	June IT
I	**Quantitative Performance Criteria**							
	Floor on primary fiscal balance, excluding oil revenue (on a payment order basis)[4]	-646.1	-167.1	-331.2	-358.6	-532.5	-145.8	-280.7
	Ceiling on stock of net claims of the banking system on the central government[5]	574.2	521.4	724.2	742.7	752.8	734.1	833.6
	Ceiling on central bank net claims on central government, excluding use of IMF credit	240.7	240.7	240.7	240.7	189.7	189.7	189.7
	Ceiling on contracting or guaranteeing of external debt (program and project)[6]		191.9	329.4	511.1	1022.8	123.2	253.0
II	**Continuous Performance Criterion**							
	Ceiling on accumulation of new external arrears by the central government		0	0	0	0	0	0
III	**Indicative Targets**							
	Floor on net reduction in the stock of domestic arrears	638.6	638.5	638.5	577.6	411.7	387.7	363.7
	Floor on government tax revenue, excluding oil revenue	899.4	196.9	379.2	693.9	989.6	210.3	404.9
	Floor on social protection spending[7]	…	30.3	68.2	106.1	151.6	…	…

Sources: Gabonese authorities and IMF staff estimates.

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

2/ Cumulative amount from January 1, 2017 for 2017 targets, and cumulative amount from January 1, 2018 for 2018 targets. Targets are set for the end of the respective month, unless otherwise stated.

3/ The authorities' own target.

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 upward or downward for any lower or higher than programmed oil revenue. 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 (rachat des creances).

6/ The performance criterion will be adjusted upward (downward) in case where early (late) disbursements of specifically agreed and identified financing flows take place.

7/ 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: Structural Benchmarks for 2017–18			
Sector/Measure	**Timeframe**	**Macroeconomic Rationale**	**Related Documentation**
Financial sector			
Prepare a plan for the orderly resolution of the activities of the three distressed state-owned banks.	End-July 2017	Reduce financial sector vulnerabilities and fiscal risks.	Copy of the document signed by Minister of Economy.
Prepare a national strategy to strengthen legal and supervisory frameworks concerning non-performing loans.	End-September 2017	Reduce financial sector vulnerabilities and fiscal risks.	Copy of the document presenting the national strategy signed by Minister of Economy.
Public Expenditure Management (PFM)			
Submission to Parliament of a FY2017 supplementary budget and supporting measures, consistent with the budget objectives of the government's economic program supported by the IMF.	**Prior Action**	Reduce budget risks	Copy of the draft supplementary budget.
Publish an executive order of the Prime Minister implementing the general accounting regulation on procedures for expenditure execution, clarifying roles and responsibilities, and requirements to be met for regulated derogations.	**Prior Action**	Reduce budget risks	Copy of the published executive order. Draft order prepared by the Budget Ministry and signed by the Prime Minister.
Implement the VECTIS module to allow for the systematic issuance of mandatory payment orders; sensitize suppliers and administrative officers on the new procedure.[1]	End-June 2017	Reduce budget risks	Copies of press releases by the Budget Ministry and reports of training sessions with administrative officers.

[1]Technical assistance on this issue had been provided by FAD. The minimum requirements to consider this SB met will include (i) a press release indicating that the issuance of payment orders through the VECTIS system has become mandatory before any government purchase of goods and services; (ii) a meeting with representatives of the business association to explain the new procedures, and (iii) one training session with civil servants to explain the new operational procedures

Table 2. Gabon: Structural Benchmarks for 2017–18 (concluded)			
Sector/Measure	**Timeframe**	**Macroeconomic Rationale**	**Related Documentation**
Public Expenditure Management (cont.)			
Publish quarterly reports on the amount and composition of the stock of unpaid payment orders and arrears.	End-September 2017 (for preceding quarter)	Reduce budget risks	Copies of the quarterly reports produced by the Budget Ministry and verification of online posting.
Publish cost-benefit analyses for investment projects authorized by the budget law, whose budgets exceed CFAF 20 billion.	End-December 2017	Improve public investment management	Publication of analyses as an annex to the 2018 Budget Law.
Complete an independent audit of 2015 and 2016 domestic expenditure arrears.	End-March 2018	Transparency and Ensure Value-for-Money in the Use of Public Resources	Publication of the audit report in the webpage of the Ministry of Economy.
Tax Policy/Revenue Administration			
Publish an annex to the Budget Law covering derogations from the existing tax exemption regime, including details on their economic, budgetary, and social impact.	End-December 2017	Strengthen revenue mobilization	Copy of the annex to the 2018 Budget Law.
Business Climate and Diversification			
Establish assessment, validation, and monitoring bodies for PPPs in the Ministry of Economy as provided for by the PPP Law.	End-September 2017	Leverage private sector expertise to support investment projects.	Copy of the Presidential decree.

Attachment II—Technical Memorandum of Understanding

June 5, 2017

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 June 5, 2017, 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 June 30, 2017 and December 31, 2017; the same variables are an indicative target for September 30, 2017; March 30, 2018; and June 30, 2018.

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 609.755 as of April 30, 2017. 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 1.0758 U.S. dollars, Pound Sterling valued at 0.8067 U.S. dollars, the Chinese Yuan valued at 6.2275 U.S. dollars, the Special Drawing Right (SDR) valued at 1.3531 U.S. dollars. Official gold holdings were valued at 1,248.34 U.S. dollars per fine ounce.

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.

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 (Text Table 1). 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.

Text Table 1. Gabon: Oil Revenues

Cumulative flows from the beginning of the fiscal year	CFAF billions
End March 2017	120.8
End June 2017	204.4
End September 2017	340.5
End December 2017	520.1

Source: Gabonese authorities and IMF staff projections.

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 Tresor*) 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.

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 program disbursements given in Text Table 2, to a maximum of CFAF 80 billion.

Text Table 2. Gabon: External Program Disbursements (Baseline Projection)

Cumulative flows from the beginning of the year	(In US$ Millions)
External loans for budget support	
End March 2017	215.2
End June 2017	311.8
End September 2017	492.5
End December 2017	1011.9
External loans for project financing	
End March 2017	66.0
End June 2017	177.7
End September 2017	266.4
End December 2017	368.4
External loans from commercial sources and international capital markets	
End March 2017	33.6
End June 2017	50.8
End September 2017	79.4
End December 2017	297.1

Source: Gabonese authorities and IMF staff projections.

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

13. **Definition:** The change in the 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 574.2 billion as of December 31, 2016 (Text Table 3).

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

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 Table 2, up to a maximum of CFAF 80 billion.

Text Table 3. Gabon: Net Claims on Central Government
(CFAF billions, stock)

	Dec-15	Dec-16
Banking system, Net claims on central government	143.5	574.2
Central Bank, Net claims on central government	-79.5	240.7
Claims on central government	452.9	452.7
Loans to central government	452.4	452.5
Other	0.4	0.2
Liabilities to central government	541.3	212.0
Treasury vault cash	27.4	31.1
Fund for Future Generations/Sovereign Wealth Fund	146.6	150.2
Treasury current accounts at the BEAC	367.2	30.6
Other Depository Corporations, net claims on central government	223.0	333.5
Claims on central government	412.0	625.7
Securities Central Government	357.7	521.6
Regional bonds	54.3	104.2
Liabilities to central government	189.1	292.2
Treasury desposits	42.2	42.2
Other deposits	146.9	250.1
CCA	0.0	0.0

Source: BEAC

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$55.23 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 2017, one-third of higher-than-programmed oil revenue should be used to reduce the stock of domestic payment arrears, one-third should be used to increase central government expenditure on high-priority public investment projects, and one-third allocated to increase central government deposits at the BEAC, with a requisite downward adjustment of the cumulative ceiling on net claims of the banking sector on the CG.

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-2016.

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 change of 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 change in 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. The ceiling applied from end-March 2017.

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

Ceiling on Contracting or Guaranteeing External Debt by the Central Government

20. **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.

21. **Definition:** For the purposes of the ceiling on contracting or guaranteeing external debt by the central government, external debt is defined as debt contracted or serviced in a currency other than the franc of the Financial Community of Africa (CFAF). The PC concerning external debt contracted by the central government applies to all external debt (whether or not concessional) contracted or guaranteed by the CG, including commitments or guaranteed for which no value has been received. 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;

For program monitoring purposes, external debt is deemed to be contracted or guaranteed once all conditions for its entrance into effect have been met, including approval of the relevant agreement by the Republic of Gabon. In the case of the issuance of euro bond, the amount deemed contracted is the amount subscribed/purchased at the end of the subscription/purchase period as specified in the final clauses of the exchange. For program purposes, the value in U.S. dollars of new external debt is calculated using the program accounting exchange rate.

22. **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 adjustor 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.

23. **Reporting**: The authorities will inform IMF staff of any planned external borrowing and the conditions on such borrowing before the loans are either contracted or guaranteed by the government.

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

24. **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 made after falling due. Arrears resulting from the nonpayment of the debt service for which a rescheduling agreement is sought are excluded from this definition.

25. **Reporting:** The Ministry of Economy will provide the final data on the stock of external arrears of the CG to the IMF, with a lag of not more than six weeks from the end of the month. This PC will be monitored on an ongoing basis, and the Ministry of Economy will provide to the IMF data concerning any external arrears of the CG immediately after such arrears are incurred.

II. Quantitative Indicative Targets: Definition of Variables

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

26. **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, 2017.

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

Cumulative Floor on Central Government Tax Revenue, Excluding Oil Revenue

28. **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.

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

Cumulative Floor on Central Government Social Spending

30. **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.

31. **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

Reporting Requirements

32. 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, boni 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, 2017; the net accumulation of new float during 2017, defined in paragraph 6 as the difference between payment orders (*ordonnancements*) and payments made (cash basis), as well as the repayment of pre-2017 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 June 5, 2017.

33. 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.

INTERNATIONAL MONETARY FUND

GABON

REQUEST FOR AN EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY—INFORMATIONAL ANNEX

June 6, 2017

Prepared By	The African Department (In consultation with other departments)

CONTENTS

RELATIONS WITH THE FUND

(As of April 30, 2017)

Membership Status: Joined September 10, 1963 Article VIII

General Resources Account:	**SDR Million**	**%Quota**
Quota	216.00	100.00
Fund holdings of currency (Exchange Rate)	199.41	92.32
Reserve Tranche Position	16.67	7.72

SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	146.72	100.00
Holdings	117.37	79.99

Outstanding Purchases and Loans: None

Latest Financial Arrangements:

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	May 07, 2007	May 06, 2010	77.15	0.00
Stand-By	May 28, 2004	Jul 31, 2005	69.44	41.66
Stand-By	Oct 23, 2000	Apr 22, 2002	92.58	13.22

Projected Payments to Fund (Expectation Basis)
(SDR Million, based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2017	2018	2019	2020	2021
Principal					
Charges/Interest	0.10	0.14	0.14	0.14	0.14
Total	0.10	0.14	0.14	0.14	0.14

Implementation of HIPC Initiative: Not Applicable

Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable

Implementation of Post-Catastrophe Debt Relief (PCDR): Not Applicable

Safeguards Assessments:

The 2016 assessment reiterated the importance of BEAC's timely implementation of priority safeguards recommendation on governance-focused legal reforms and transition to International Financial Reporting Standards (IFRS). Satisfactory progress to conclude these reforms within the agreed timelines is needed for continued IMF financial engagement with CEMAC member countries.

Exchange Rate Arrangement:

The regional currency is the CFA franc. From 1948 to 1999, it was pegged to the French franc.

Since the euro was introduced in 1999, it has been pegged to the euro at the rate of CFAF 655.957 per euro.

Like other members of CEMAC, Gabon accepted the obligations of Article VIII, Sections 2, 3 and 4 on June 26, 1996. Gabon levies a tax on wire transfers, including for the making of payments and transfers for current international transactions, which gives rise to an exchange restriction subject to Fund approval under Article VIII, Section 2(a) of the Articles. The authorities have exempted certain transactions from the tax; however, the tax continues to apply to other transfers subject to Fund jurisdiction.

Article IV Consultations:

Gabon was on a 12-month Article IV consultation cycle. The Executive Board concluded the last Article IV consultation on February 19, 2016. A 24-month cycle will be introduced once the EFF-supported arrangement is in place.

FSAP Participation and ROSCs:

A national module for Gabon of the joint IMF/World Bank Financial Sector Assessment Program (FSAP) was completed in 2002 and discussed by the Executive Board in March 2002 (IMF Country Report No. 02/98). The first regional Financial Sector Assessment Program (FSAP) was carried out January-March 2006, and a regional FSAP Update was carried out during November 2014 to January 2015. Regional Reports on Observance of Standards and Codes (ROSCs) were done in the areas of monetary and financial policy transparency, banking supervision, and anti-money laundering and combating the financing of terrorism (AML/CFT) in June 2006.

Resident Representative:

There is currently no resident representative in Gabon. The Fund is in the process of selecting a resident representative, based in Libreville.

Technical Assistance:

A. Central Africa Regional Technical Assistance Center (AFRITAC)

Area	*Focus*	*Time of Delivery*
Automated risk management	Customs/implementation of ASYCUDA software	Apr 2017
Combating VAT fraud	Internal revenue/customs administration of VAT	Apr 2017
Combating VAT fraud	Internal revenue/customs administration of VAT	Apr 2017
Combating VAT fraud	Internal revenue/customs administration of VAT	March 2017
Combating VAT fraud	Internal revenue/customs administration of VAT	Feb 2017
Public financial management	Budgeting by program objective	Oct 2016
Combating VAT fraud	Internal revenue/customs administration of VAT	Jul 2016
Public debt management	Debt sustainability analysis	Jul 2016
Public financial management	Budgeting by program objective	Jun 2016
Government financial statistics	Diagnostic study of government financial statistics	Jun 2016
Public financial management	Budgetary operations of public bodies	May 2016
Public financial management	Draft regulation of the Court of Auditors	May 2016
Government financial statistics	Central government financial operations Table	Apr 2016
Public debt management	Debt sustainability analysis	Dec. 2015
Revenue Administration	Customs/Tax collaboration-preventing/fighting frauds	Oct. 2015
Public Debt management	Debt portfolio risk management	Sep. 2015
Revenue Administration	LTO performance measurement and assessment	Aug. 2015
Macroeconomic Statistics	Compilation of high frequency indicators	Jul. 2015
Revenue Administration	Modernization of tax and customs procedures (revenue assessment, collection, accounting)	Jul. 2015
Banking Supervision	Development of an automated audit system	Jul. 2015
Public Financial Management	Review / expansion of budget coverage	Apr. 2015
Revenue Administration	LTO performance measurement and assessment	Apr. 2015
Banking Supervision	Training of new supervisors—session 2	Mar. 2015
Revenue Administration	Customs/Tax collaboration preventing/fighting fraud	Mar. 2015
Public Debt management	Review of operational procedures	Mar. 2015
Banking Supervision	Training of new supervisors—session 1	Mar. 2015
Public Financial Management	Manual of public Spending—accounting phase	Feb. 2015
Revenue Administration	Customs/Tax collaboration preventing/fighting fraud	Feb 2015
Banking Supervision	Risk management and internal control	Nov. 2014
Revenue Administration	Further development of automated Customs risk management system	Oct. 2014
Public Financial Management	Strengthening budget execution	Sep. 2014
Banking Supervision	Workshop on financial stability	Sep. 2014

B. Headquarters

Department	*Purpose*	*Time of Delivery*
FAD	Quarterly fiscal reporting	April 2017
FAD	PEFA Assessment	Apr 2017
FAD	Expert visits on customs	Mar 2017
FAD	PEFA Assessment	Dec 2016
FAD	PEFA Assessment	Oct 2016
FAD	Program budget outturn	May 2016
FAD	Short-term customs expert	May 2016
FAD	Short-term customs expert	Oct 2015
FAD	Expenditure chain	Sep 2015
FAD	Trust Fund Design	Sept. 2015
FAD	Rationalization of Expenditure Chain	June 205
FAD	PEFA assessment and PFM reforms	May 2014
FAD	Custom administration	March 2014
FAD	PEFA assessment	Dec. 2013
FAD	Public finance management	July 2013
FAD	Short term expert visit on PFM (4 visits)	Thru 2013–14
FAD	Short term expert visit on Customs (5 visits)	Thru 2013–14
STA	Real Sector Statistics Advisor	Thru 2014-17
STA	Government Financial Statistics Advisor	Thru 2017
STA	National accounts	Apr 2017
STA	Government financial statistics	Apr 2017
STA	Financial sector indicators	Apr 2017
STA	Government financial statistics	Mar 2017
STA	Balance of payments statistics	Jan 2017
STA	National Accounts	Jan 2017
STA	Government financial statistics	Oct 2016
STA	Government financial statistics workshop	Jun 2016
STA	Government financial statistics	Jun 2016
STA	TA Administrative Mission to AFC	Apr 2016
STA	Government financial statistics	Apr 2016
STA	National accounts	Apr 2016
STA	National accounts	Mar 2016
STA	Government financial statistics	Mar 2016
STA	Enhancing data management	Nov 2015
STA	National accounts	Aug 2015
STA	National accounts workshop	Jul 2015

RELATIONS WITH THE WORLD BANK

Title	Products	Provisional timing of missions	Expected delivery date
A. Mutual information on relevant work programs			
The World Bank work program in the next 12 months.	**World Bank advisory services** are ongoing in the following areas: - **Statistics:** Under the US$1.3 million Statistics Reimbursable Advisory Services (RAS) the Bank will provide long term strategic advice to the national statistics office and the implementation of the national statistics strategy and a targeted assistance for the implementation of a new household survey - *Enquête Gabonaise pour l'Evaluation de la Pauvreté* (EGEP II).	RAS has been closed at government's request. Remaining activities have been included into a Statistics project under preparation.	Expected delivery date in January 2017.
	- **Tax system reform:** Through the US$1 million Tax System Reform RAS which is a follow up of the diagnostic of tax system carried out under the first RAS signed in 2012, the Bank is assisting the authorities on the rationalization of the tax exemptions system, the rationalization of the tax structure, and the implementation of a risk based audit system. The RAS has been closed at government request for the benefit of a new RAS related to the implementation of a Revenue Agency.	The last mission (a workshop) took place in November 2016.	Completed on January 2017.
	- **Two studies on Energy and Water**, financed under the AFREA Trust Fund (amount US$1.3 million) to assist the GoG in the operationalization of a sustainable delivery model for basic electricity and water services in rural areas. This new model is based on two pillars: (i) delegation of responsibility for service provision to specialized O&M operators, and (ii) sustainable long-term financing combining cost recovery and subsidies. O&M operators will be competitively selected and will be in charge of	Next supervision mission scheduled for January 2017.	FY 2017.

	installing equipment, carrying out O&M, and recovering payment for service in their regional service areas. Payments to the operators will depend on the effective delivery of services.		
	- **Public Financial Management (Phase II).** A pilot for program budgeting was undertaken in 11 ministries in 2013. In May 2015, a new PFM Act was adopted that makes mandatory the use of procurement, commitment, and treasury plans. The use of such plans, with the support of the PFM II RAS, will enable the roll-out of program budgeting. The PFM II RAS is also supporting (i) the operationalization of the public procurement regulatory agency and (ii) and the consolidation of program budgeting approach.	The last mission took place in November-December 2016. Final outputs are under review.	Final delivery date scheduled for January 2017.
	- **Institutional Development Fund** amounting to USD 350,000 supporting (i) the professionalization of the Supreme Audit Institution (SAI)'s staff in performance audit, (ii) the revision of the institution Organic Law, and (iii) the reinforcement of the relation between the SAI and its external stakeholders.	n.a.	n.a.
	- **Forestry study**: This Technical Assistance (TA) has for objective to assess of the impact on the economy and on the sector of the 2010 ban of log export, and to assess the potential of the sector to contribute to economic diversification through a better performing wood processing sector. A Technical Assistance to revise the Forestry Code has been added on request of the government.	Mission scheduled for March 2017. A restricted restitution workshop took place in June 2016.	March 2017.
	- **Public sector wage bill:** This Technical Assistance (TA) has for objective to help the Government control the total wage bill, notably by helping design possible reforms which would rationalize the management of the public-sector work force and compensation policy.	Mission took place in December 2016.	Completed in December 2016.

	- **Public expenditure Review:** A US$ 148K PER articulated as follows. Chapter 1 will introduce the macroeconomic and PFM context; Chapter 2 deals with revenue mobilization (tax gap and tax expenditure analyses); Chapter 3 presents overall expenditure trends and quality analysis; Chapter 4 will assess Gabon's health outcomes and spending levels in light of the performance of comparator countries, present options to improve health outcomes and the efficiency of public health spending, and explore avenues to increase the fiscal sustainability of the CNAMGS, while extending health insurance coverage; Chapter 5 will review the institutional landscape for social protection in Gabon, the costs, cost-effectiveness, and likely poverty impact of key social protection programs; Chapter 6 will survey the progress and challenges in the education sector, assess the adequacy of financing and present options to improve the efficiency and sustainability of education spending.	Next preparation mission scheduled in February 2017.	FY 2017.
	- **Revenue agency:** Under a US$ 300k RAS, the objective is to address government request for support to implement a revenue agency merging Tax and Custom administrations	n.a.	Ongoing discussions. Need to be further detailed.
	- **Ministry of Economy:** This US$ 200k RAS aims to support the ''Direction de la Prospective'' in developing and rolling out medium term macro fiscal projection tools and a database of public investment projects.	n.a.	Ongoing discussions. Need to be further detailed.
	- **Civil service reform:** Through a US$ 500k RAS. The activities should be centered on supporting ministries' HR departments (which are relatively new), supporting the information system (using the existing system as a base) and providing technical assistance on	Preparation mission took place in late 2016.	Ongoing discussions.

	performance evaluation and incentives since they will launch a cross-cutting work in the area		
	World Bank lending: - A US$18 million Investment Promotion and Competitiveness project was approved in March 2014. The objective of the Project is to contribute to the improvement of the investment climate and foster enterprise development in Gabon. The Project consists of three components: (i) institutional development to improve business climate; (ii) support to enterprise development and; (iii) project coordination and public-private dialogue. - A US$58 million IBRD Loan for the Central African Regional and National Backbone project (CAB4) was approved in March 2012 and became effective in March 2013. The objective of the Project is to contribute to increase geographical reach and usage of regional broadband network services and reduce their prices in the territory of the Gabonese Republic. The project components consist of: (i) Enabling environment; (ii) Connectivity; and (iii) Project management. A US$23 million Additional Financing (AF) to scale up the fourth series of projects (SOP4, formerly APL4) of the Central African Backbone (CAB) Program (P122776) coupled with a level two restructuring to extend the project has been prepared. - A US$60 million Access to Basic Services in Rural Areas and Capacity Building Project (Energy) was approved by the Board in September 2015. Its objectives are to expand access to water and energy services in targeted rural areas and to establish mechanisms to improve sustainability of service provision. The project is effective since October 2016.	The last mission took place in October-November 2016. It was a joint mission PPIC/Doing Business. Last supervision mission took place in December 2016. Next mission scheduled in January 2017.	Expected closing date in June 2019. Revised closing date scheduled in June 2018. Expected closing date in November 2021.

	- A US$7.5 million GEF wetlands grant aims to enhance protection of biodiversity in selected forested wetlands on the Ramsar list through knowledge creation and development of conservation measures for sustainable wetlands management.	The project is effective. Next supervision mission scheduled in February 2017.	Expected closing date in April 2020.
	- A US$100 million Infrastructure and Local Development Program II was approved in December 2015. It aims at improving access to urban infrastructure and services in selected underserviced neighborhoods and to build basic capacities for municipal management in target cities.	Last supervision mission took place in October-November 2016.	Expected closing date in January 2021.
	- A US$100 million Skills for Employability Support Project was approved in February 2016. The overarching objective of the project is supporting youth employability in Gabon to address the twin goals of promoting shared prosperity and reducing extreme poverty.	The last mission took place in December 2015 for the negotiation. The project is effective since December 2016.	Expected closing date in December 2021.
	- A US$9.33 million Wildlife and Human-Elephant Conflict Management Project is effective since January 2017. It will help finance the management of four parks in South Gabon (Loango, Moukalaba-Doudou, Mayumba and Waka). In addition to providing funds to fight poaching, it will be supporting local communities in the area of park management, including eco-tourism and other income-generating activities.	A workshop is scheduled in March 2017.	Expected closing date in May 2021.
	- A US$56million e-Gabon project was approved in June 2016. The objective of the Project is to increase the efficiency of public health management and services delivery by rolling out a new National Health Information System - aligning the efficiency of Information and Communications Technology with practitioners' needs - and to advance the development of a digital innovation ecosystem in Gabon	Last supervision mission took place in December 2016.	Expected closing date in January 2022.

	to seize opportunities arising from eHealth applications and services. - A AUS$50 million Statistical project is under preparation. The concept note review meeting took place in March 2016. The development objective of this project is to strengthen the statistical capacity of the borrower, fill key data gaps, improve statistical production, and enhance statistical dissemination practices. - A US$400 million budget support is under preparation. The objective of the proposed Inclusive Growth and Spending Efficiency operation is to support government's reforms to improve the efficiency of spending in the health sector and overall, and promote a more inclusive and sustainable growth. The Bank approval meeting is scheduled in July 2017.	 Bank approval meeting FY 2017. Last preparation mission took place in November 2016. Next preparation mission scheduled in February 2017.	 FY 2017. FY 2018.
	IFC investments:		
B. Requests for work program inputs			
Bank request to Fund.	- Article IV documents.		FY16.
C. Agreement on joint products and missions			
Joint products in the next 12 months.	Collaboration on various data issues.		Ongoing.

RELATIONS WITH THE AFRICAN DEVELOPMENT BANK

Table 1. Gabon: AfDB's Portfolio
(As of January 2017)

Projects	Approval Date	Signature Date	Effectiveness	First Disbursement Date	Closing Date	Bank Contributions (UA millions)			
						Currency	Amount (in millions)	Interest Rate Reference	Lending Spread
Programme d'Appui aux Reformes Economique & Finance	1/11/2017	1/14/2017	1/14/2017	3/15/2017	12/31/2017	EUR	500.0	EURIBOR	0.80%
Capacity building for youth employability	1/14/2017	n.a.	n.a.	n.a.	n.a.	EUR	84.6	n.a.	n.a.

STATISTICAL ISSUES

I. Assessment of Data Adequacy for Surveillance
General. Data provision has some shortcomings, but is broadly adequate for surveillance. Staff's analysis is affected by shortcomings in the accuracy, reliability and adequacy of periodicity and timeliness for certain data, as well as consistency between datasets. The statistical producing agencies do not have sufficient access to source data and lack an institutional framework in which to share information and coordinate compilation efforts. To monitor progress in the implementation of PSGE, household surveys should be conducted and disseminated regularly. Detailed economic and financial statistics, including long historical time series, are published in the *Tendances de l'Économie*, issued twice a year by the General Directorate of Statistics and Economic Studies (DGSEE) of the Ministry of Economy, Trade, Industry, and Tourism. More recent sectoral developments are described in detail in the Tableau de Bord de l'Économie, issued quarterly by the Ministry of the Economy. Due to capacity constraints, Gabon does not provide IIP data, which is required for all IMF members under Article VIII, Section 5, "so far as it is possible to furnish this information." The authorities have not taken any step to fill this gap.
National Accounts. AFRITAC Central (AFC) is working with authorities to incorporate the System of National Accounts 1993 methodological recommendations. A new series of national accounts, covering the period 2001-2010 has been prepared. The next TA mission of the AFC due for May 2017 will assist with the compilation of national accounts for 2011-2015, and the whole new series should be released after the 2011-2015 accounts have been completed. AFC also assisted Gabon with the implementation of quarterly national accounts and high frequency indicators, but no progress was achieved. **Employment and unemployment.** Data on unemployment and the total labor force are not systematically available.
Price Statistics. In 2007 the authorities began publishing an improved CPI index, which covers the same basket of goods and services as the Central African Economic and Monetary Community (CEMAC) Harmonized Consumer Price Index (HCPI) and uses a weighting scheme derived from Gabon's 2003 household expenditure survey. The CPI only covers the capital city of Libreville. The improved CPI has 2004 as base year and covers only the capital city of Libreville.
Government Finance Statistics. Significant progress was made in adopting the analytical framework and classifications of the GFSM2001/ 2014 and by producing a TOFE from the government trial balance. The Gabonese authorities' aim is to produce by the end of 2018 a TOFE covering budgetary central government, local authorities and social security. Further extension of the coverage to central government extra budgetary units is planned for a later stage as the necessary statistical sources become available. The adoption of full accruals would also need to await the strengthening of the public accounting system. Human resources devoted to this statistical work are insufficient and should be increased. Gabon does not provide GFS data to the IMF for inclusion in the *Government Finance Statistics Yearbook* nor the *International Financial Statistics* yet.

Monetary and Financial Statistics. The Bank of Central African States (BEAC) reports monetary and financial statistics (MFS) for the central bank and other depository corporations to the IMF's Statistics Department (STA) with monthly periodicity, using the standardized report forms (SRFs). The depository corporation survey does not include data on deposit taking microfinance institutions, a growing sector in the country. With time, it is hoped that it will include data on interest rates offered by the financial institutions sector to non-financial entities on deposits and loans.

Financial Sector Surveillance.
The Banking Commission of Central African States (COBAC) reports all core and some of the financial soundness indicators to STA for Gabon.

External Sector Statistics. Balance of payments statistics are compiled by the national directorate of the BEAC and the estimates are validated by staff from BEAC headquarters. Data are disseminated with considerable delay and they have not been submitted for publication in the IFS since 2006. Since 1995, compilation of balance of payments statistics has conformed to the Balance of Payments Manual, 5th edition.
The situation of Gabon's external account statistics is both varied and contradictory. On the one hand, there is a sizeable backlog in producing these statistics, which is a sign of a generally deteriorating situation. But on the other hand, an examination of the system in place, the methods used, and the figures produced point to a much more optimistic picture: the system for collecting and producing data is in place and operates effectively when it is in use. A new application, which is in the process of being set up in 2017, benefits from increased computerization at all stages of data production, and should further improve the situation. Up until the recent past, external trade data have mostly been based on estimates, which were not cross-checked with customs data. Entries on other items of the current account were not very reliable or accurate due to low response rates to enterprise surveys, despite partial correction through adjustments. Foreign direct investment in the financial account is likely to have been underestimated owing to insufficient detail in the oil sector survey and a complete neglect of surgent, non-oil related greenfield investments, such as those related to the large OLAM activities. The magnitude and detailed breakdown of private capital flows, particularly short term, suffered because data have not been comprehensive. Over the past few years, mission teams have been receiving simplified analytic presentation BoP tables, which focused on the recent past and projections over the medium term. Those tables have allowed some basic insights, but considerable revisions to them have been frequent and the referenced shortcomings have made it necessary for Staff to rely on own calculations and estimations for a series of entries. The country is currently receiving TA as part of the STA-JSA project. The first mission under the project (January 2017) found that the compilation system, essentially based on a survey of companies, is well adapted to the characteristics of the Gabonese economy in which the bulk of balance of payments flows is carried out by direct investment companies that are readily identifiable. This system will be further improved shortly with the introduction of a new application for electronic collection of data for balance of payments purposes, designed for all the countries in the region, and aligned with the methodology of the sixth edition of the Balance of Payments and International Investment Position Manual (BPM6). Transition to BPM6 is underway. The first series of BPM6 data covering the reference period 2007-2012 are expected to be released and sent to STA for publication in BOPSY by the third quarter of 2017. BOP and IIP data for the

more recent years (2013–15) are also expected to be disseminated shortly. Hence, with the introduction of new systems, the assistance through intensified TA, and the planned publication of the backlog of complete BoP statistics (closing the gap between 2006 and 2016), necessary revisions to historic series will be likely, along with the possibility for mission teams to shift away from own estimates and move towards fully using BEAC's published series. There are comprehensive data on the stock of external public debt and its composition, as well as detailed projections on debt service due. Data are provided, usually to Fund missions, by the General Directorate of Public Debt and Accounting (*Direction générale de la comptabilité publique*) of the Ministry of Budget and Public Accounts.

II. Data Standards and Quality	
Gabon participates in the General Data Dissemination System (GDDS), but has not updated the metadata or plans for improvement since 2002. Except for consumer prices, the authorities do not report any real sector or government finance statistics (GFS) to STA for publication in *International Financial Statistics (IFS)* or for electronic dissemination.	No data ROSC is available.

Gabon: Table of Common Indicators Required for Surveillance

(As of May 11, 2017)

	Date of latest observation (For all dates in table, please use format dd/mm/yy)	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]
Exchange Rates	Mar. 2017	Mar. 2017	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Mar. 2017	May 2017	M	M	M
Reserve/Base Money	02/17	Apr/17	M	M	M
Broad Money	02/17	Apr/17	M	M	M
Central Bank Balance Sheet	02/17	Apr/17	M	M	M
Consolidated Balance Sheet of the Banking System	02/17	Apr/17	M	M	M
Interest Rates[2]	03/17	n.a.	M	M	M
Consumer Price Index	03/17	n.a.	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	12/16	03/15/17	M	Q	N/A
Revenue, Expenditure, Balance– Central Government	Dec. 2016	03/15/17.	M	Q	N/A
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Dec. 2016	Mar. 2017	Q	Q	N/A
External Current Account Balance	Dec. 2011	Dec. 2012	I	M	A
Exports and Imports of Goods and Services	Dec. 2012	July 2013	M	M	I
GDP/GNP	2009	Jan 2012	A	I	A
Gross External Debt	Dec. 2016	Feb. 2017	Q	I	I
International Investment Position[6]	N/A	N/A	N/A	N/A	N/A

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially-determined, including deposit rate, discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[7] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).

Statement by Daouda Sembene, Executive Director for Gabon and Mr. Thierry Nguema-Affane, Senior Advisor to the Executive Director
June 19, 2017

The Gabonese authorities appreciate the constructive policy discussions with Management and staff that paved the way for their current request for an arrangement under the Extended Fund Facility (EFF).

With five out of its six members, including Gabon, being oil producing and exporting countries, the Central African Economic and Monetary Community (CEMAC) has been hit hard in recent years by the sharp decline in oil prices compounded by security threats and inclement weather. Initial individual policy responses have proven insufficient to fully absorb the shock. As a result, the macroeconomic situation in the region deteriorated significantly, with international reserves accumulated by the regional central bank (BEAC) shrinking rapidly, thereby threatening the fixed exchange rate regime. In this light, the Heads of State of CEMAC countries met in Yaoundé, Cameroon on December 23, 2016, and agreed on the need for a coordinated effort to restore macroeconomic and external stability and support the fixed exchange rate regime in the region

Following the high-level meeting in Yaoundé, the Gabonese authorities adopted a medium-term economic recovery program (*Programme de Relance Economique, PRE*) for the period 2017–19 to address the macroeconomic and financial challenges facing the country. The *PRE* is based on three pillars: (i) ensuring the viability and sustainability of public finances; (ii) strengthening economic governance by improving the business climate, supporting strategic sectors, restructuring public entities, and strengthening the instruments of financing of the economy; and (iii) generating productive infrastructure investments aimed at developing the productive sectors of the economy.

In support of this program, our Gabonese authorities are requesting a three-year arrangement under the Extended Fund Facility (EFF) in an amount equivalent to SDR 464.400 million, corresponding to 215 percent of Gabon's quota at the Fund.

I. Recent Economic Developments

Gabon's macroeconomic situation continued to deteriorate in 2016 due to protracted low prices and decreased production of oil. Growth declined from an average of 6 percent in 2010-2013 to 2.1 percent in 2016. Oil production fell in 2016 owing to aging oil fields and lower investment induced by low oil prices. Against the backdrop of lower oil revenue, non-oil economic activity was affected by the lower public demand. With the introduction of the automatic petroleum price-setting mechanism in 2016, inflation rose in 2016 but remained below the 3-percent convergence criterion set by the CEMAC. At the same time, the current account deficit increased sharply as net exports continued to decline.

In the face of lower revenues, the fiscal deficit was financed through domestic financing and accumulation of arrears. As a result, the fiscal position deteriorated further in 2016, despite a contraction in expenditures. With domestic arrears and BEAC statutory advances accounted for, estimates of public debt jumped from 44.7 percent in 2015 to 64 percent in 2016, just below the regional convergence criterion of 70 percent. This development notwithstanding, debt sustainability analysis conducted by staff finds public debt to be sustainable.

Monetary conditions have become tighter. In 2016, the monetary base and credit to the private sector contracted due to the general slowdown in economic activity. The financial sector is broadly in good health but vulnerabilities have increased. The banking sector, the most important segment of the financial sector, is well capitalized, liquid and profitable. However, NPLs have increased, reflecting the weakening of the fiscal position.

The numerous efforts to diversify the economy away from oil in the context of Emerging Gabon Strategic Plan (PSGE) are already producing tangible results. Shaping these outcomes are, *inter alia*, the creation of new mining companies, the start of the local transformation of part of manganese production, strategic investments in the special economic zone (SEZ), and the success of major partnership programs between the government and international private investors, notably in the agribusiness. Several other large FDI projects are being undertaken which bodes well for future growth. These developments reflect improvement in the business climate induced notably by the massive public investment in energy and communication infrastructure.

II. Program for 2017 and the medium-term

The authorities recognize that economic recovery could prove elusive absent reform efforts to stabilize the macroeconomic situation and adjust to the new oil price environment. To address the deterioration in the economic and financial situation, they have adopted the *PRE* that aims at rebuilding fiscal and external buffers, promoting financial sector stability, improving competitiveness, and reducing poverty. Successful program implementation is expected to improve Gabon's medium-term economic outlook. Sustained FDI inflows along with the support of bilateral and multilateral partners are projected to strengthen the overall balance of payments and boost Gabon's contribution to reserve buildup at the regional level.

The near-term economic outlook, however, is expected to be challenging amid fiscal consolidation. GDP growth is forecast by staff to be 1 percent in 2017, as oil production and public demand are projected to contract further. Non-oil growth is also expected to slide from 3.3 percent to 1.7 percent although growth in agriculture and commodity-related sectors would pick up, supported by ongoing large-scale private investment.

Fiscal Policy

A gradual fiscal consolidation is the cornerstone of the program and will aim to help reduce the level of public debt to 57 percent of GDP by 2020, while seeking to reverse the loss of foreign exchange reserves of the CEMAC. To this end, the authorities will aim at reducing the overall fiscal deficit by more than 6 percentage points of GDP by 2020. In this regard, increased government deposits at the central bank will be targeted. To this end, our authorities will step up their efforts to increase domestic revenue mobilization and rationalize expenditures, notably the wage bill, while pursuing fiscal reforms and continuing to support the development of productive sectors and infrastructure. Our Gabonese authorities are also committed to protecting expenditure in the social sector.

For 2017, a revised budget law consistent with the medium-term program objectives has been prepared and submitted to the National Assembly. This revised budget law includes strong revenue and expenditure provisions to achieve the fiscal policy objectives of the program for 2017. On the revenue side, measures being implemented will increase tax compliance, broaden the tax base, streamline fiscal expenditure and tax and customs exemption schemes, and modernize filing and payment procedures. The administrative management of tax and customs revenues will be improved through the creation of a revenue authority expected to be effective by the end of 2018. On the expenditure side, measures envisaged to control expenditures include further cuts in subsidies and a reduction of the wage bill by 0.5 percent of GDP through notably a recruitment freeze in all but priority sectors, and an audit of the compensation for senior officials and in government institutions.

To address potential fiscal risks arising from the difficult short-term macroeconomic environment, contingent plans were adopted to postpone or cancel public investment projects in the event revenue fall short of the projections.

The authorities have also elaborated a strategy for the full repayment of arrears by 2020. To ensure tighter control of expenditure arrears, a ceiling on the annual Treasury float of 10 percent of expenditure (excluding salaries, debt payments, and externally-financed capital spending) has been adopted. In addition, an executive order clarifying the framework for executing expenditure through legal exceptional procedures has been adopted and published. An audit of unaccounted extra-budgetary expenditure by the state and public institutions is planned for fiscal years 2015 and 2016, with a view to obtaining an exhaustive assessment of the potential fiscal risks.

The implementation of public finance management reforms initiated in 2015 will continue, taking into account the recommendations of the recent PEFA assessment. These reforms include completing the implementation of CEMAC fiscal directives. Steps will be taken to improve the performance of the public procurement unit. Public investment projects will be better managed through preparation and publication of upstream economic analyses of major projects. The financial surveillance of public companies and government agencies will be strengthened.

Monetary and Financial Sector Policies

The regional central bank (BEAC) and banking commission (COBAC) are strongly committed to supporting country programs and strengthening the region's external sustainability notably through: (i) tighter monetary policy; (ii) gradual elimination of the central bank's statutory advances to member countries; (iii) implementation of strict limits to restrict bank refinancing using government securities as collaterals; and (iv) resolution of troubled banks, greater compliance with the current supervisory framework, and further strengthening of banking supervision.

The regional authorities continue to work to improve compliance with foreign exchange regulations. In addition, BEAC will pursue the implementation of its own safeguards rolling measures (governance and financial reporting) which are well underway.

Policy intentions at the regional level are expressed in the BEAC Governor's Letter of Policy Support for the Recovery and Reform Programs Adopted by the CEMAC Member Countries.

The Gabonese authorities, along with the regional authorities, remain committed to safeguarding the stability of the financial sector. In this regard, a detailed plan for the resolution of the three distressed public banks currently monitored by the regional banking commission (COBAC) is being prepared and will be finalized by end-July 2017. Moreover, a national strategy to strengthen the framework concerning the non-performing loans will be prepared in coming months with a view to enabling banks to contribute to the financing of the economy.

Structural Reforms

Reforms to improve the business climate and pursue economic diversification away from oil will be accelerated, consistent with the *PRE,* which has identified 10 specific areas in which to promote competitiveness and sustainable growth. These reforms include (i) pursuing the land titling reform that will establish the framework for allocating land for economic purposes; (ii) establishing the assessment, validation and monitoring bodies for PPP law approved in 2016; and (iii) completing the establishment of a one-stop shop at the Special Economic Zone that will provide a customized service to fast track all immigration and labor-related formalities for foreign investors.

III. Conclusion

The Gabonese authorities are requesting an extended arrangement under the EFF to support the implementation of a medium-term economic recovery program. They are confident that a successful implementation of the program will enable Gabon to restore macroeconomic stability, while strengthening the country's fiscal and debt sustainability and contributing to the buildup of international reserves at the regional central bank.

In light of the actions already taken and the authorities' strong commitment to the economic and financial program, we would appreciate Directors' favorable consideration of the authorities' request for an extended EFF arrangement.