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Gabon: Letter of Intent, Memorandum of Economic Financial Policies, and Technical Memorandum of Understanding

July 24, 2018

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

Letter of Intent

July 24, 2018

The Managing Director
International Monetary Fund
Washington, DC

Dear Ms. Lagarde,

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

We have made solid progress on the political front and continue to make progress toward achieving the program objectives. Through dialogue, political and social tensions have been defused and legislative elections are now scheduled to occur in the coming months. While three end-December 2017 performance criteria (PC) were met, those concerning domestic and external financing, and the target for the non-oil primary balance and the continuous PC on external arrears were missed. The three indicative targets on non-oil revenue mobilization, social spending, and domestic arrears were also missed. Furthermore, there were delays in implementing structural benchmarks (SBs) through end-March 2018.

Prospects for the economic outlook are improving. Growth decelerated in 2017 due to lower oil production and a recession in traditional sectors (construction, services, and commerce), which depend on government spending. At the same time, the non-oil commodity sectors (mining, forestry, and agribusiness) continue to experience fast growth. In 2018, recent increases in oil prices and new investment in the oil sector and the Special Economic Zone will contribute to a recovery in growth to 2 percent. In addition, manganese production is on track for a substantial improvement, which is boosting exports. Inflation remains contained at about 2.8 percent in the first half of 2018. Against this background, we remain strongly committed to the structural reforms aimed at bolstering competitiveness and setting the basis for a strong and durable medium-term recovery.

We will achieve our fiscal objectives in 2018. Our supplementary budget, which has been approved by the Senate, provides for an improvement in the non-oil primary balance of 2½ percent of non-oil GDP, with strong measures to contain the wage bill and other non-priority spending. In addition, we will implement new measures to boost non-oil revenue collections, including the elimination of the costly program of customs duty exemptions, except for only a few basic consumption goods. The supplementary budget also includes an automatic adjustment mechanism for public spending to better manage fiscal risks when non-oil revenue collections fall short of initial projections.

We are renewing our commitment to pursuing our arrears strategy. Although we have accumulated new external arrears since the beginning of 2018, as a corrective action for completion of this review, we have cleared all arrears owed to bilateral, and multilateral creditors as well as arrears owed to commercial creditors whose claims are guaranteed by a sovereign. We intend to clear the remaining commercial, non-guaranteed, arrears by the end of the year and have shared relevant information with our creditors on our commitment to clear the arrears. We also commit to developing and regularly updating a monthly fiscal cash flow plan that can help demonstrate that there will be no short-term liquidity shortfall and the risk of re-accumulation of arrears is addressed. Funds required to cover shortfalls will be proactively mobilized to manage liquidity pressures. Regarding domestic arrears, we renew our commitment to clear them per the agreed calendar under the Club de Libreville.

We recognize that several prior actions and structural reforms are key to achieving program objectives. These reforms will help boost non-oil revenue collections and increase the transparency and efficiency of public spending. To contain budgetary pressures, for example, we have taken the decision to subject to greater control the level of spending of semi-autonomous government entities. We have also announced the elimination of a large number of autonomous agencies as a key measure, with their activities reintegrated into regular government ministries.

We are committed to preserving financial sector stability. While the banking system remains generally sound and credit expansion is expected to pick up, progress in developing a framework for the resolution of NPLs has been slow and we continue to work on the resolution of the three distressed public banks. We have already begun to improve communication of our plans to gradually clear domestic debt. We are renewing our efforts to resolve the three distressed public banks, including the option of liquidation as already mandated by the COBAC for two of the banks, and considering the need to minimize fiscal costs.

Program implementation will continue to be monitored through quantitative PCs, SBs, and indicative targets as described in the Technical Memorandum of Understanding (TMU) Attachment II. Based on the strength of the policies outlined in this letter, we request the completion of the second review under the extended arrangement, a waiver of nonobservance for the continuous performance criteria on external arrears accumulation and two end-June performance criteria (non-oil primary fiscal balance and net central bank claims on the government) which based on available information has not been observed, as well as a waiver of applicability for the other end-June performance criteria for which data are not yet available.

With recent political difficulties behind us, we remain confident that the policies described in the current and previous MEFP are adequate to achieve the objectives under the program. We stand ready to take additional measures should they be needed to meet the objectives of the economic program and will consult with the IMF in advance of any necessary revisions to the policies contained in this letter and attached Memorandum, in accordance with the Fund’s policies on such consultations. We will provide the Fund staff all data and information needed to assess our policies, particularly those mentioned in the TMU.

The government authorizes the Fund to publish this letter of intent, the memorandum of economic and financial policies for 2018-19, the technical memorandum of understanding, and the forthcoming staff report for the second review of the extended arrangement.

Sincerely yours,

/s/

Jean-Marie OGANDAGA
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

July 24, 2018

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

A. Economic Outlook

1. Macroeconomic conditions are slowly improving. Economic activity started to stabilize in 2017. Estimates indicate that overall economic growth declined from 2.1 percent in 2016 to 0.5 percent in 2017. The slowdown was modestly sharper than anticipated. The oil sector was a factor, as production decreased by 8.5 percent in 2017 (compared with an earlier projection of a decline of 5.9 percent). This underperformance arose from technical disruptions and work stoppages at Gabon's oil companies, as well as an agreement concluded by OPEC member countries to cut worldwide production. Indications are that non-oil growth slowed to 1.7 percent in 2017, in line with initial projections. Nevertheless, the impact of fiscal consolidation (especially the strong decline in public investment) had a stronger-than-expected impact on sectors linked to government expenditure, leading to recessionary conditions in construction as well as the commercial and tertiary sectors. This weakness was moderated by the robust growth of mineral extraction (with the commissioning of new manganese operations), as well as the robust performance of the agriculture and timber sectors.

2. An increase in oil and mineral exports helped to reduce the current account deficit in 2017. Gabon's trade balance improved by 46 percent in 2017, following a deterioration in 2016 (to its lowest level of the last twelve years). This development was due to an increase in value of exports (22 percent), while the increase in the level of imports was relatively modest. Oil still occupies a dominant position among Gabon's exports, and sales of this product in value terms increased by 15 percent in 2017. Increased demand was supported by sales to Asian countries. Export volumes of non-oil exports were up in 2017 thanks to sales of wood and products. Manganese and iron silica-manganese exports also increased in 2017—largely supported by demand from China, Spain, and India and spurred by the competitive average cost for Gabonese ore. Consequently, the external current account deficit declined from 10 percent of GDP in 2016 to approximately 5 percent in 2017. At the same time, an increase in foreign direct investments in the agri-business sector helped to improve the capital account. These trends helped to support a modest accumulation of Gabon's imputed international reserves at the BEAC, helping to stem the erosion of reserves that occurred in 2016.

3. Monetary conditions remain tight. In the second half of 2017, the contraction of the monetary base slowed from -13 percent (year-over-year) through end-June 2017 to -3.9 percent at end-December 2017, as deposit levels in commercial banks started to recover. The same trend continued through April 2018, as money supply (M2) increased by 4.5 percent (year-over-year). Nevertheless, bank lending to the private sector remains in recession, as the trend decline in credit provision worsened from -4.1 percent in December 2017 (year-over-year) to 9.0 percent in April 2018, reflecting stagnant economic activity, and elevated levels of non-performing loans and domestic arrears. The average 12-month consumer price inflation was 2.6 percent at end December—a decline of 0.7 percentage points since June 2017—and remained around 2.5 percent at end-April 2018. This was driven by lower domestic food prices and a slowdown in fuel price inflation (as the impact of the elimination of fuel subsidies in 2016 dropped out of the index). Further imported fuel price adjustments through the early months of 2018 could create inflationary pressures in the short run.

4. Financing of the Gabonese economy has been less favorable than expected in the first half, but the medium-term outlook remains robust. Preliminary findings show that:

a. The inflow of foreign direct investment (FDI) is expected to be slightly lower than expected in 2018 than initially forecast. This is explained by the continued delay of the fertilizer and cash-crop projects by the Indo-Singaporean agri-business company, OLAM. At the same time, OLAM recently intensified efforts to build a new international airport as well as several mineral ports (worth approximately CFAF 250 billion) by June 2020, for which construction has already started. These new projects confirm the commitment of this key private investor to its operations in Gabon. The recent rise in oil prices and new offshore fields can also potentially bring new investment and help support economic activity.

b. T-bills issuance on regional markets of CFAF 150 billion will provide immediate liquidity.

c. Additional financing from the 2017 sale of Shell Gabon to the Carlyle Group is also expected in 2018, and CFAF 50 billion of income tax in the mining sector were collected in April 2018.

d. Finally, international organizations, including the IMF, the World Bank (WB), the African Development Bank (AfDB) and the French Development Agency (AFD) will continue to financially support the Government's macroeconomic and fiscal objectives, including to pay the domestic and external debt. The AFD has disbursed € 37.5 million in July and is expected to disburse an additional € 37.5 million in the second half of this year. The IMF is expected to disburse US$98 million in July 2018 and will disburse an additional US$98 million by the end of December. During the last quarter, the World Band and AfDB will disburse US$200 million and € 200 million, respectively.

5. Developments in external debt were marked by an increase in exposure to multilateral funding and reduction in arrears accumulation. The stock of arrears declined significantly as a result of payments efforts to complete the first review of Gabon’s Fund supported program. However, program implementation faced several debt servicing and arrears repayment issues. Tight liquidity conditions, delays in the receipt of expected program disbursements and technical debt servicing difficulties prevented the complete clearance of external arrears by end 2017. However, the rate of external arrears accumulation declined significantly in 2017, with 17 percent of expected 2017 debt service falling in arrears, versus 44 percent of debt service falling into arrears during 2016.

Budgetary pressures continued to mount in the first half of 2018, which led to further arrears accumulation in 2018.

6. **The stock of government domestic debt (including domestic arrears) declined substantially in 2017**. Total domestic debt declined from 26.8 percent of GDP in 2016 to 24 percent at the end of 2017. This is explained by a reduction of domestic arrears of about 2 percent of GDP (mainly of the exceptional treasury float), as well as repayment of moratorium debt. This decline was about 1.5 percent of GDP less than envisaged under the program, due to slower progress in the repayment of VAT arrears and an upward adjustment in the stock of moratorium debt. Of the remaining stock of domestic arrears (about 5 percent of GDP at end 2017), the government decided in April 2018 to implement a new payment plan under the "Club of Libreville" arrangement.

7. **Economic growth appears set to recover in the near term, but with a more modest bounce back than previously expected.** The baseline forecast for 2018 has been revised to 2 percent, or 0.7 percentage points less than the previous forecast. This markdown stems from two factors:

i. The weak performance of the oil sector during 2017, which continued into early 2018. Maintenance activities and isolated work stoppages contributed to a 10.7 percent (year-on-year) decline in production in Q1 2018 of 10.7 percent (year-over-year). Oil companies are currently preparing new annual targets in line with these developments, but there are strong signs of improving prospects, particularly since oil producers expect that the recent rise in international oil prices will lead to substantial investments in the short run. Moreover, the start of production at new fields, expected in Q4 2018, should make it possible to compensate for losses earlier in the year. Given these countervailing factors, the current estimate prudently anticipates that oil production in 2018 will remain stable at the level of 2017.

ii. Prospects are difficult for sectors such as construction, commerce, and services, which strongly depend on government expenditure. Conditions in these sectors are expected to stagnate in the context of further fiscal consolidation in 2018. This weakness will only be partially compensated by the rapid growth of activity from maturing agricultural, forestry, and mining projects, as well as the continued expansion of the Special Economic Zone. Indeed, during the last few years, Gabon has shown signs of a "two-speed economy", in which the engines of economic growth are slowly shifting to new sectors.

8. **Medium-term prospects remain relatively promising if adequate policies are implemented as planned.** The large and continuing FDI flows toward agri-business and other nontraditional sectors can help the Gabonese economy to reduce its dependence on oil and governmental activities. At the same time, the oil industry will remain important for the country, and the recovery of oil prices during 2017, as well as recent discoveries of new reserves and the ongoing work for a new fiscal regime for oil, should encourage new investments and contribute to economic activity in the service sector. The largely rural and labor-intensive agricultural and forestry projects could also generate positive spillovers, but this potential will depend on reforms to address the weak business climate, where greater efforts are required.

B. Fiscal Policy

9. The overall fiscal deficit on a cash basis declined more sharply than envisaged in 2017 to 3.4 percent of the GDP.

a. Total revenues fell 0.7 percentage points of GDP compared to 2016. Despite the drop-in petroleum production, oil revenues rose of 1.5 percentage points of GDP compared to 2016 due to higher prices and exceptional revenues. At the same time, non-oil revenues declined by 2.3 percentage points of GDP, with VAT receipts and customs revenues decreasing respectively by -0.6 percentage points and -0.5 percentage points. The growth slowdown had a marked impact on the mobilization of tax revenues. An additional factor was work stoppages in the tax administration that affected collection in 2017. The introduction of new measures[1] aimed at boosting non-oil revenue mobilization during Q4 2017 helped to avert a more severe deterioration in revenues.

b. Revenue declines were more than offset by expenditure declines. Overall spending fell by 3.2 percentage points of GDP relative to 2016. This is explained by a large reduction in capital expenditure, with externally- and domestically-financed investment spending decreasing by 2.1 and 1.2 percentage points of GDP, respectively, compared to 2016. At the same time, the measures taken to rationalize expenditure on goods and services helped to reduce this line item by 1.1 percentage points of GDP. The strategy to reduce the wage bill during 2017 resulted in savings of 0.4 percentage points of GDP, largely thanks to efforts undertaken to update payrolls and rationalize staff expenditure, and despite the unplanned payment of new and deferred bonuses to tax officials (CFAF 20.9 billion). Finally, expenditure on transfers declined by 0.2 percentage points of GDP. Only two expenditure items (net lending[2] and special accounts) exceeded their targets under the Fund-supported program: by 0.6 and 1.1 percentage points of GDP, respectively, compared with 2016.

10. Fiscal slippages relative to initial budget targets and delayed external disbursements resulted in substantial cashflow pressures. Weaker-than-expected tax collection and unplanned spending complicated cashflow management. Moreover, a large part of the external financing expected at the time of the approval of Gabon's Fund-supported program—required to meet the country's financing needs—was disbursed only in December 2017. These cashflow pressures led to the accumulation of a Treasury float at end 2017 beyond what was envisaged under the program (0.9 percent of the GDP versus a target of 0.6 percent of the GDP). Furthermore, it was not possible to fulfil the commitment to save 5 percent of oil revenues in the Funds for Future Generations (FGF) or in the Stabilization Fund. Nevertheless, the significant reduction of overall fiscal balance on a cash

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[1] Review of exemptions of the "*programme de lutte contre la vie chère,*" implementation of the single combined tax, promotion of information exchanges between tax and customs staff, and implementation of CEMAC customs

[2] Net lending includes repayments to the national oil refining company (SOGARA), for which the government has accumulated payment arrears totaling CFAF 28 billion, as well as equity investments by Gabon's sovereign wealth fund (FGIS) totaling 50.9 billion.

basis made it possible to contain external and domestic borrowing and ensure a reduction in total public debt.

11. Budget execution since the start of 2018 has continued the same trend. Total revenues as at end-April dropped by CFAF 33 billion compared to the same period in 2017, with declines experienced for both oil and non-oil revenues. However, monthly customs revenues have improved steadily since the beginning of the year. Total expenditure increased by CFAF 47 billion, compared with April 2017, due to weaker fiscal controls and new asset acquisitions by Gabon's sovereign wealth fund, the FGIS.

12. Fiscal policy will continue to target a return to an overall fiscal balance and surpluses over the medium term. The overall fiscal balance on a cash basis should become positive by 2019 and reach 1.7 percent of the GDP by the end of the Fund-supported program. At the same time, the non-oil primary balance should decline gradually to 3.3 percent of non-oil GDP in 2020, and the non-oil basic primary deficit should reach 0.1 percent of non-oil GDP. This progressive improvement of the fiscal position will make it possible to reduce the level of total public debt to below 50 percent of GDP by the end of the Fund-supported program.

13. Fiscal consolidation will be accelerated and strengthened in 2018 to address pressing liquidity constraints and safeguard fiscal sustainability. The objective is to reduce the overall fiscal deficit on a cash basis to 0.2 percent of GDP. This fiscal consolidation is based on measures to bolster non-oil revenues and reductions on certain expenditure items:

a. On revenues, in addition to the measures already adopted under the original 2018 budget law[3], the Government will apply the following measures: (i) the clearance of half of the expired suspensive customs procedures **(new structural benchmark, end-December 2018)**; (ii) suppression of unjustified VAT exemptions, in particular those granted for public contracts; (iii) the application of the highest excise duty rates provided by the CEMAC directives; (iv) the creation of a tax on luxury vehicles; (v) the revision of the tax rate applied to transfers of funds; (vi) an increase of property transfer fees; (vii) taxation of the activities of the public corporations; and (viii) the revision of tax applicable to wood and manganese exports based on current prices.

b. On expenditure, the government aims to reduce the wage bill by 1.5 percentage points of GDP compared with 2017 through the reduction of performance bonuses, cuts in salaries and in household allowances, and the implementation of a voluntary retirement plan. An audit of the number of civil servants, and control over staff attendance will also lead to payroll revisions and generate savings. The acceleration of the structural reforms to strengthen controls on special accounts expenditures, along with the reduction of the

[3] These measures include: (i) the increase from 30 percent to 35 percent of the CIT rate applied to oil companies' sub-contractors; (ii) the reform of excise tax rates (downward revision of ad valorem rates and creation of specific rates); (iii) the implementation of a voluntary procedure of tax regularization without sanctions; (iv) the removal of tax basis reductions not included in the budget law.

number of departmental agencies and entities managing these accounts, will reduce their deficits.[4]

14. Fiscal adjustment will be accompanied by efforts to mobilize various sources of financing to address liquidity needs. To address cash flow pressures, the authorities will contain the budgetary float to a maximum of 15 percent of the expenditure directly controlled by the Government. At the same time, steps were taken during Q1 2018 to strengthen the recovery of tax arrears. The Government is committed to recovering 40 percent of the recoverable tax arrears that have been identified **(new structural benchmark, end-September 2018)**. Lastly, to meet financing needs, the government will increase the amounts of planned asset divestitures and drawings from international financial markets under the budget law by CFAF 39 billion and CFAF 150 billion, respectively.

15. A supplementary budget law will be adopted by the Senate prior to the second review of the Fund-supported program. The supplementary budget law will be based on the fiscal objectives and measures defined under Gabon's Extended Fund Facility Arrangement. The Senate has adopted this budget law on June 29th **(prior action)**.

16. Several provisions of the supplementary budget law support the implementation of the fiscal adjustment. An article has been included in the Supplementary Budget Law that provides for automatic adjustments should non-oil revenues collected in a given quarter fall short of the baseline forecast by 5 percent or more. In that event, there would be an equivalent adjustment of expenditure. In addition, the contingency reserve will be increased to 20 percent for goods and services expenditure, 15 percent for transfers, 12 percent for capital expenditures, and 10 percent for other expenditure. The article related to the contingency reserves specifies that appropriations placed in reserve are unavailable until the reserve is released.

17. The Government is also committed to the immediate implementation of several adjustment measures prior to the second review of the Fund-supported program. To quickly boost liquidity and to accelerate fiscal consolidation, three measures will take effect before the conclusion of the second review and do not require inclusion in the Supplementary Budget Law. The government's program to address high living costs resulted in an estimated loss of revenue of CFAF 10.4 billion during Q1 2018, and will be eliminated (prior action). Exemptions will be introduced under the Supplementary Budget Law for a limited number of basic goods (meat, poultry, fish, rice, and milk), thus limiting revenue losses and better targeting the poorest consumers. In parallel, in accordance with articles 47 and 64 of the Organic Budget Law, 1.5 percent of appropriations made available under the original 2018 budget law (equivalent to CFAF 30 billion) will be cancelled by a decree of the Prime Minister based on a proposal from the Minister of Budget **(prior action)**. Lastly, a joint letter from the Ministers of Economy and Budget will be transmitted to Gabon's sovereign wealth fund to put a hold on all new asset acquisitions through the end of 2018 **(prior action)**. The government has also agreed to prepare a time-bound action plan for privatization by end-

[4] These measures are outlined in the section on fiscal structural reforms.

September to ensure that privatization receipts are mobilized in a timely manner in support of the assumptions embedded in the supplementary budget.

C. Arrears Management

Strategy to Audit the Stock of Arrears

18. The total stock of arrears at end December 2017 was equivalent to 6.6 percent of GDP. Arrears on external and domestic debt amounted to 1.3 percent and 5.3 percent of the GDP, respectively. The latter were distributed as follows: 0.5 percent of GDP of arrears on domestic debt service; 3.8 percent of GDP of arrears on VAT refunds; and 1 percent of GDP on unpaid Treasury float. Arrears repayment efforts focused on the latter items, and the stock of arrears declined by 2 percentage points of GDP, of which the stock of VAT arrears declined by 0.4 percentage points of GDP. On the other hand, cashflow pressures made it impossible to clear all external arrears as envisaged under the Fund-supported program. About 75 percent of the stock of external arrears accumulated before 2017 was cleared, but new arrears were also accumulated. At the same time, new arrears were accumulated on domestic debt service, offsetting the impact of payments to reduce the previous stock.

19. The external arrears clearance strategy defined under the Fund-supported program remains unchanged, and the domestic arrears repayment plan will consider prevailing liquidity constraints:

- External arrears clearance will be completed by end 2018. External debt arrears to official creditors (bilateral, multilateral and commercial guaranteed claims) will be cleared by the second review of the Fund-supported program.

- We intend to clear approximately CFAF 37.8 billion in commercial (non-guaranteed) arrears by the end of the year, which arose due to past and ongoing fiscal difficulties. We have shared relevant information regarding our financial difficulties, ascertained our commitment to clear the arrears by end-2018 and provided creditors with an opportunity to give inputs on our strategy to clear commercial arrears.

- We have started holding meetings to update our monthly cashflow plan of revenues, expenditures, loan disbursements, debt repayment schedules, and the remaining arrears clearance plan. This will help ensure that there will be no short-term liquidity shortfall and the risk of re-accumulation of arrears is addressed.

- Over time, a reasonable buffer will be built into the cash-flow plan in anticipation of possible temporary financing shortfalls. Funds required to cover shortfalls will be proactively mobilized to manage liquidity pressures, for example by issuing short-term T-bills (maturity of less than a year), and the excessive reliance on cash balances is reduced.

- VAT arrears will be repaid through 2021. A VAT escrow account that the Government committed to establish to facilitate VAT refund and prevent the appearance of new arrears has been operational since February 2018. To strengthen the arrears prevention strategy, a deferred payment mechanism will be tested with two oil companies and the national mining company and included in the 2019 Budget Law **(new structural benchmark, end-October 2018).**

- The remaining stock of exceptional budgetary float will be cleared during 2018. At the same time, the accumulation of new float during 2018 will be limited to 15 percent of total expenditure on goods and services, transfers and domestically-financed investment.

D. Measures to Prevent the Accumulation of New Expenditure Arrears

20. The implementation of the new expenditure execution procedure at the local level and in public entities will be accelerated. Since June 2017, the systematic use of the VECTIS application to process purchase orders has helped strengthen central government expenditure commitment controls and limit recourse to exceptional procedures. The implementation of this new procedure at the local governments' level was delayed, but as of June 2018, the E-BOP information system has been deployed to nine provinces and processing of purchase orders will be made effective by the second review of the Fund-supported program **(prior action)**. Regarding public agencies and semi-autonomous government units, in particular those managing special accounts and lacking the information systems to trace and monitor expenditure[5], a calendar for the deployment of the required systems, compliant with the new expenditure execution procedure, will be defined by the Government in dialogue with relevant management teams **(new structural benchmark, end October 2018)**.

21. Arrears monitoring is being strengthened, supported by the ongoing audit of arrears. The VECTIS and E-BOP modules for tracking payment deadlines and alerts for past due payments were activated in June **(structural benchmark, end-June 2018)**. The government has issued a first version of the report presenting the evolution and the composition of budgetary float and expenditure arrears at end 2017, which will be published with the quarterly report on budget execution. The service provider responsible for the independent audit of arrears of the government and related entities during 2015 and 2016 was selected via public tender in March 2018 and the service agreement is awaiting signature. The terms of reference concluded with the service provider indicate that the audit will be completed four months from the start of work **(revised structural benchmark, end-September 2018)**. The results of this audit will be published and will provide comprehensive and reliable data to supplement currently available information on the arrears situation.

22. Active cashflow management will be reinforced.

- **The debt management strategy has been specified and clarified.** The debt management strategy has been updated and attached to the Supplementary Budget Law. Regarding domestic debt, the Government proceeded with the treatment and the assumption of

[5] Roughly 76 percent of public entities are not covered.

responsibility vis-à-vis its creditors, in accordance with the Economic Recovery Plan. Under the strategy, some creditors (including large companies and SMEs) have come together to create the Club of Libreville as the sole interlocutor of the Government for the treatment of the debts of its members. It is agreed between the parties that the Government will pay the Club the sum of CFAF 285.7 billion, subject to the following terms and conditions: (i) the receivables concerned will bear net interest at a rate of 5.5 percent per annum; (ii) the repayment will be made in 74 monthly installments (the first repayment has been made in May 2018); and (iii) repayments will be made in constant monthly installments of CFAF 5 billion.

- **The meetings of the Government's Cashflow Committee are being progressively reactivated.** A new decree was signed jointly by the Ministers of Economy and Budget creating a cashflow committee with a broader mandate relative to the previous procedure for cash flow planning. In particular, the committee will be responsible for follow-up, as well as the setting of monthly cash flow ceilings for each sector. This decree foresees committee meetings every fifteen days, which will be held regularly from the end of June following an initial set up phase.

- **The Treasury Single Account (TSA) will be consolidated and central government accounts at the state depository corporation (Caisse des Dépôts et consignations, or CDC) will be repatriated to the TSA.**

- 52 accounts are currently opened with the BEAC, fragmenting sources of central government liquidity. A letter was sent to BEAC headquarters to make possible the signature of an agreement between the Minister of Budget and Public Accounts and the National Director of the BEAC to create and manage TSA sub-accounts, in place of the current arrangements that are specific to each account. The objective is to enable the TSA to fully play its role as a pivotal account, distinguish the roles of the Central Treasurer and the Central Accountant of the Treasury from those of the TSA, and transform the current "liaison accounts" of the provincial treasurers of Port-Gentil, Franceville and Oyem into "operations accounts" at the auxiliary agencies of the BEAC. A system of daily cash flow reporting of deposit accounts used for foreign currency payments by treasury accountants at two commercial banks will also be developed.

- More than 479 accounts have been opened at the state depository corporation (*Caisse des dépôts et consignations*, or CDC) to collect funds from semi-autonomous public agencies, managers of public programs and projects, public accountants, as well as public corporations and sub-national units. Actions will be taken at the BEAC to divide the CDC account at the BEAC into two, distinguishing the institutional deposits from the CDC (notaries, bailiffs, lawyers, public service providers) from the public deposits of the correspondents of the Treasury and the accountants of the State. The Government is committed to transforming this last account into subsidiary account of the TSA **(new structural benchmark, end-September 2018)** in order to repatriate the public funds held with the CDC into the TSA. In addition, based on the comprehensive census of these accounts, their relevance will be assessed on an account-by-account basis.

- The census of the accounts in the commercial banks was launched, but the requests addressed to the banks did not provide sufficient information. To accelerate this inventory and to draw up a list of these accounts before the review of the program **(prior action)**, the Government is committed to issuing an immediate decree to: (i) resume the census process; (ii) schedule the date of their gradual closure; and (iii) prohibit the opening of new accounts with commercial banks. A review of the listed accounts will be then carried out to set a schedule for closures in dialogue with the BEAC and taking into account stocks of deposits in each bank, repatriate the credit balances into the TSA, and define a method of treatment of the debit balances.

- **Safeguarding payments of VAT credits will be continued with the implementation of a deferred payment mechanism.** In accordance with the commitments made by the Government, an escrow account was opened in January 2018 in order to release money for payments of VAT credits. After a campaign to sensitize companies, the General Directorate of Tax has begun to replenish this account in February 2018. Work is currently ongoing to improve its functions and to extend its use to the General Directorate of customs. To provide greater visibility to the creditors and address cash pressures, the Government will test with the two oil companies and the mining company (which received 83 percent of payments in 2017) the implementation of a deferred payment mechanism, eliminating cash advances from companies to pay the VAT on their imports and symmetrically avoiding a refund to them. This new mechanism will be introduced by the 2019 budget law. The draft will include a provision to modify the Tax Code and to define criteria for eligibility and the scope of targeted transactions[6]. In parallel, a letter of the Minister of Economy will be transmitted to the three targeted companies, presenting the mechanism and the requirements to be filled (new structural benchmark, October 2018).

E. Measures to Mobilize Non-Oil Revenues

23. Rationalization and control of customs and tax exemptions will continue. The amount of tax expenditure slightly decreased in 2017. Counterparty controls were carried out—and remain ongoing—by the tax department under the program dubbed "tax justice." However, exemptions still account for 65 percent of customs receipts and 19 percent of total tax revenues collected. The suppression of illegal exemptions will be accelerated, and there will be a stricter follow-up of the number of tax exempt imported goods. In particular, the decree detailing the conditions for granting of tax and customs incentives will be completed with a calendar of imports or domestic

[6] Eligible enterprises must fulfill the following conditions to benefit from the VAT deferred payment mechanism: compliance with reporting requirements and payment of taxes and duties; tax and customs compliance, non-existence of customs or tax arrears and/or serious customs or fiscal offences; removal credit with an agent approved by customs staff; and compliance with solvency requirements: fixed assets, assets, bank guarantee. The VAT deferred payment mechanism applies exclusively to the import of materials, equipment, and spare parts of industrial materials, equipment, and machines.

purchases required for an investment project. At the same time, by the end of 2018, the tax and customs departments will carry out joint controls of the recipient of goods exonerated with a focus on high-risk areas (e.g. investment projects with a slow rate of implementation, projects with social aims that have not been achieved, etc.). The Government will produce an annex to the Supplementary Budget Law listing granted exemptions, and detailing their economic, budgetary, and social impact.

24. Customs and tax procedures will be improved and strengthened. Several measures were already enacted to address persistent undervaluation of taxable items, in particular: (i) the creation of a specific unit that will initiate a review of declarations indicating an undervaluation of goods; (ii) the transfer of suspect cases to special units for revision and comprehensive review; and (iii) the development of an automated quotation system. These measures will be extended through joint controls by the tax and customs departments targeting importers and distributors of palm oil to identify and regularize possible fraudulent practices on the nature or the volume of imports declared. In addition, specific checks of VAT credit payments will be carried out based on objective risk criteria to promote better management of VAT credit payments.

25. Upfront payment will be implemented as the regular payment method at customs. With a note dated April 13th, 2018 the Director General of Customs initiated a communication campaign to inform operators of the legal requirement of upfront payment of customs taxes and duties. Actions have also been taken to inform importers. Faced with resistance from the latter group, the list of companies eligible to collect credit on an exceptional basis could not be finalized under the planned deadline **(structural benchmark, End-March 2018)**. However, the list of eligibility criteria has been established in consultation with the main importers' trade union, and is being validated with all the concerned operators. To facilitate the operational implementation of the cash payment system, the possibility of making payments via bank transfer through the BEAC's various tools, such as SYGMA (*Système des gros montants automatisé*) and SYSTAC (*Système de télécompensation en Afrique Centrale*), will be explored.

26. The Government will strengthen measures to detect, prevent, and address cases of VAT fraud. Several measures have been initiated. The 30 audits already undertaken have led to tax adjustments totaling CFAF 332 million, and these controls will continue through the end of July. The publication on the website of the Directorate General of Tax of all registrations has also been initiated and is gradually being extended. However, the low number of net contributors explains the deficient VAT performance. Indeed, the large number of companies failing to submit declarations, as well as persistently high rates of companies declaring no turnover, or very low levels of VAT credits, have contributed to an erosion in VAT collections. In this context, the register of taxable individuals as well as the mechanisms for tracking VAT returns must be improved. Monitoring of VAT on taxable individuals (corresponding to the companies whose annual turnover is higher than CFAF 60 million) will be transferred from the offices for taxes on small companies and private individuals (CIPEP) to the office for the taxation of medium-sized businesses (SUMMIT). This shift will make it possible to facilitate the identification and the regularization of non-taxed operators when sales turnover exceeds CFAF 60 million **(revised structural benchmark, end-July 2018)**. At the same time, the taxable turnover threshold will be raised to CFAF 150 million. The conditions concerning the application of the VAT will also be strengthened, including an obligation to maintain regular accounts, guarantees of solvency (tax history, financial capacity, economic scale, lease, etc.), and the possibility to question this option if the taxpayer defaults.

27. The reforms aimed at developing paperless customs procedures will be extended and consolidated. To accompany the migration of the customs administration to ASYCUDA/SYDONIA World, processes will be reengineered through the drafting of new customs clearance procedures. The migration to ASYCUDA/SYDONIA World will be linked to the multimodal electronic single window project, for which the Ministry for private Investment Promotion, National Entrepreneurship, Small and Medium-Sized Enterprises, Trade and Industry recently selected a service provider. The implementation of automated risk management will also be reactivated.

28. Preparations for the establishment of the Gabon Revenue Authority (GRA) will continue. Several activities have been carried out during the recent period to prepare for the creation of the GRA. These include: (i) the establishment of a project team; (ii) a detailed presentation of the project to the Prime Minister and further publicity campaigns targeting other administrations; (iii) the finalization of the draft text establishing the GRA, currently under discussion; and (iv) the finalization of a draft decree establishing and organizing the National Commission for the Orientation of Tax Policy. The next steps include: (i) adoption of the draft Law creating the GRA and defining the methods, procedures, and operations of the GRA; (ii) definition of an internal and external communication policy to accompany the deployment of the project; and (iii) creation of a framework for consulting and sharing between the authorities and technical and financial partners (TFP) to facilitate the provision of resources and expertise to the Steering Committee.

F. Other PFM Structural Reforms

29. Fiscal reporting of earmarked revenues and corresponding expenditures will be reinforced. The budget law currently includes six special accounts that benefit from earmarked revenues. To improve the transparency of the reporting and to reduce the risks of extrabudgetary expenditure financed by earmarked revenues, the review of earmarking will continue. It will cover the creation of new special accounts or recourse, other particular procedures under the organic budget law, and the elimination of earmarks that do not comply with the legal criteria for exceptions to the principle of budgetary universality.

30. Decisive actions will be taken to improve the financial oversight of public entities and departmental agencies. The administrative unit responsible for gathering and coordinating financial information from these entities and for harmonizing their financial oversight will be created **(new structural benchmark, end September 2018)**. A first draft outlining the terms of reference of this new entity is already available. In parallel, the new decree establishing a harmonized statute of the departmental agencies will also be published **(new structural benchmark, end-September 2018)**. This text will harmonize the statute of departmental agencies, identify their own resources, define their methods of management in line with the provisions of the organic budget law, reinforce the conditions of the financial monitoring exerted by the Government, and repeal any contrary former provision. In this context, the Government will also revisit the law creating the FGIS. In particular, the government will propose that representatives of the Ministers of Economy and Budget be included in the strategic committee of the FGIS. Regarding public enterprises, the Government confirms its commitment to developing a text specifying the objectives of the policy of shareholding of the State and to developing a dashboard with the comprehensive census of the public enterprises in which the State holds participations, along with their administrators.

31. The quarterly fiscal reporting on the budget execution will be improved and regularly published. Two quarterly fiscal reports were issued: a report on the first quarter 2017 (available on line since May 2018 on the website of the Budget Ministry) and a report on the third quarter 2017, produced and posted in April 2018 **(structural benchmark, end-February 2018)**. The Government is committed to accelerating the production and the publication of these reports in accordance with the original commitment under the program. The information on the execution of social expenditures presented in these reports will also be enhanced, following the budgetary nomenclature and comparing the outturns with the quarterly targets defined under the program.

32. PFM reforms undertaken since 2015 will be consolidated. Gabon was the first CEMAC country to transpose the PFM directives and to present and execute in 2015 a program-based budget. The implementation of this reform resulted in considerable progress toward strengthening budgetary documentation and reporting. The implementation of all reforms supported by the organic budget law and the associated texts will be strengthened and accelerated. A strict application of the rules on virements and transfers defined in article 45 will ensure that the optimal execution of appropriations voted in the budget law, especially for social spending, is safeguarded.

33. The commitments to reinforce the transparency of public procurement and the efficiency of public investment management are maintained. Some progress has been made in reducing the recourse to single tenders, which represented 87 percent of the total amount of public procurement agreements concluded in January 2018. However, this rate remains much higher than the threshold of 15 percent set by the public procurement code. In the same vein, all public-private partnerships that have been concluded to date have used this same non-competitive procedure. The Government thus reiterates its commitment to publishing quarterly reports on the website of the Budget Ministry statistics related to public procurement and public-private partnerships, including the nature and the value of the tenders accepted by direct negotiation and the exemptions granted under negotiated procedure. In addition, the commitment to carry out cost-benefit analyses of new investment projects was not adhered to in 2018. The Government will now respect this commitment under forthcoming budget laws as projects are added to the triennial public investment strategy **(revised structural benchmark, end-December 2018)**. For this purpose, the Government plans to dedicate funds in the annual budget to finance feasibility studies. Lastly, to set an example and given financing constraints, the Government has decided to prioritize in the 2018 supplementary budget investment projects that have a direct impact on the population. In this regard, school renovation programs are ongoing. The selection of suppliers is based on systematic competitive procedures, which are largely relayed in the Gabonese press.

G. Social Sector Policies

34. The Government is committed to stepping up its efforts to ensure predictability and quality of social spending. Social spending has remained low relative to the program target since the initiation of the program in 2017, mainly due to the tight cashflow situation of the government. To meet the social spending floor in 2018, the government (jointly with the World Bank) has launched a performance-based financing program to prioritize social spending and make its delivery more efficient.[7] Under the program, identified priority social protection units will receive budget transfers based on the quantity and quality of services provided, focusing attention on outcomes rather than inputs. As a result, the government has agreed with the World Bank to increase priority social spending, which will be monitored under the Fund-supported program. Furthermore, once the national household survey is completed in September 2018, the government is committed to redefining the poor in Gabon (GEF), with a view to better targeting the economically vulnerable Gabonese.

H. Financial Sector

35. The Government is committed to implementing a credible and transparent plan to repay its domestic arrears. A key continuing financial sector vulnerability is the trend rise of overdue loans to banks. With the "Club de Libreville," the government intends to convert a large share of its domestic debt into marketable securities. This could help improve the cashflow position of many small- and medium-sized enterprises (SMEs) and address the trend rise in NPLs.

36. To speed up the resolution of insolvent public banks, the government will hire, by end-July, a reputable international consultant to develop a resolution plan to minimize the cost. In line with the December 3, 2017 MEFP, the Terms of Reference, to be agreed with Fund Staff, will request plans consisting of the evaluation (feasibility and cost) of available options by end-September 2018, including the orderly liquidation of these banks (structural benchmark delayed from end-March 2018). In addition, in consultation with COBAC, the government will continue the processes of liquidation of the Postebank and *Banque de l'Habitat du Gabon* (BHG), but will refrain from taking decisions regarding the compensation of creditors before the resolution options are evaluated. In addition, the government will refrain from taking any action (such as asset transfer or restructuring decision) at *Banque Gabonaise de Développement* (BGD) that may interfere with the above-mentioned project or make use of public funds until a credible plan has been submitted and discussed with Fund Staff.

37. The government will privatize its non-strategic shareholding in BICIG by end-March 2019. The 75 percent share held by the government shall be sold using competitive bidding in line with international best practice. To initiate the process, the government will hire a reputable firm by

[7] According to the World Bank, the design of the performance based financing program is based on best practices from 20+ such programs across Africa, and include verification and counter-verification mechanisms.

end-September 2018 and refrain from interfering in the bank's governance and/or affairs until the shares are sold.

38. By end-October 2018, the High Council for the Promotion of Investment (HCPI), which is under the responsibility of the Presidency of the Republic, will deliver the strategy for the clearance of loans in arrears (new structural benchmark). The strategy, to be developed in cooperation with the Ministry of Justice, will be detailed into several action plans (i) to expedite the training of specialized judges and improve the effectiveness of the judicial branch, including judicial procedures and the establishment of commercial courts by end-March 2019; and (ii) to modernize the registry regarding trade and real estate credit. The strategy would be agreed with Fund staff and an interim version shall be provided for comments by end-September 2018. In line with the December 3, 2017 MEFP, action plans will identify the authorities in charge, objectives, actions to be implemented, means to be deployed, and timetable for implementation. Action plans will be monitored on a monthly basis and status reports will be timely shared with Fund Staff.

39. By end-December 2018, the government will restructure the funding of Small- and Medium-sized Enterprises (SMEs) to support economic development and financial inclusion. We recognize that efforts to finance SMEs via direct loans from the BGD have largely failed to catalyze private sector growth. As a result, the government will support economic diversification exclusively through indirect channeling of funds to SMEs through commercial banks, which are well placed to identify potential viable projects. In this context, the government will establish a shared guarantee fund for SMEs. The concept paper of the guarantee fund will be timely shared with Fund Staff for comments. The guarantee fund will:

- Allow only for indirect public financing through commercial banks.
- Regroup all Gabonese Funds and initiatives that aim at funding SMEs, with a view to enhancing their impact, coordination, and visibility.
- Support SMEs in preparing funding and business plans with a view to obtaining funding from commercial banks. This support would be publicly funded but provided by the private sector.

I. Diversification and the Business Environment

40. The Government renews its commitment to implementing structural reforms to improve and reinforce the attractiveness of the business climate. The government's diversification strategy is already bearing fruits. It continues to be essential for stimulating the economy and promoting employment. In the short run, actions continue to concentrate on two essential pillars. The Government remains committed to preserving financial stability and ensuring that the financial sector play a leading role in supporting private sector activity. Moreover, the Economic Recovery Program (PRE) and the Strategic Plan for Emerging Gabon (PSGE) will continue to be pursued.

41. The improvement of the business climate is one of the principal pillars of the strategy to promote diversification. Gabon's classification in recent rankings of the World Bank's *Doing Business* indicators has been weak. The authorities fully recognize that the business climate is an essential prerequisite to allow the private sector to play a leading role in the Gabon's economic growth and employment creation. The first follow-up report of the PRE and the PSGE has just been published. The report concentrates on the definition of the institutional and legal framework and on the creation of incentives for the development of private companies in Gabon. The Government's reform program aims at: (i) lowering costs of running a business; (ii) providing a stable business environment; and (iii) reducing barriers to entry for new enterprises. The recommendations of the follow-up report fall under a vast program which is articulated around two axes: (i) a priority axis in the short-term; and (ii) a strategic axis in the medium and long term. In the short term, the focus is on the areas that have a direct effect on the good performance of companies, which is crucial because it builds/restores private sector confidence. In particular:

- **Land titles:** Land titles are required in order to introduce property taxes. A complete cartography of occupation and land use - available on line on www.pnat.ga - will be completed by end 2018. In the process, conflicts identified between concessions granted to sectors (including forestry, mining, agricultural, and protected areas) would be addressed. The next step is to set up the "Natural Resources and Land Use Regulation Commission" to manage these conflicts and finalize land allocation decisions for economic purposes. A Commission was created in July 2017 by decree, which specifies its organization and functioning. The following steps will be completed: (i) resolution of all land disputes (by [October] 2018); and (ii) approval of the national master plan (by [October] 2018).

- **Public-Private Partnership (PPPs):** A PPP Committee has been set up by the National Agency for Investment Promotion Agency (ANPI). The committee has started to implement the new normative framework for new PPP projects. It is placed within the Ministry of Economy and is responsible for ensuring that the rules regarding competition among service providers are adhered to.

- **Arbitration Chamber:** The Arbitration Chamber was unveiled in April 2018. It will start its work by September 2018. It is an important step to avoid the excessive use of the judicial system in cases where the parties involved can agree on the principle of out-of-court settlement or where litigation relating to small amounts are involved. Given the recent increase in perceived country risks, the Government is committed to: (i) improving training of specialized judges; (ii) setting up commercial courts (Ministry for Justice); (iii) modernizing the trade and mortgage registry (Ministry for Justice) and (iv) creating an Arbitration Chamber within the Chamber of Commerce.

- **Building permits:** The Government remains committed to reducing the time and average costs required to obtain these permits, as this constitutes a major constraint for foreign investors and businesses in general.

- **One-stop shop:** Significant progress continues to be made in this area. The Government is currently preparing an impact analysis survey of the activities of the one-stop shop centers located in Libreville, the Libreville airport, and the Nkok industrial park.

- **Labor Code Reform:** Beyond initiatives for vocational training, especially for the young labor force, the Government has begun to work on the reform of the Gabonese Labor Code. The objective is to modernize it, making it more flexible to increase formal employment in the country.

42. To increase the transparency of the management of oil and mining revenues, the Government is committed to stepping up its efforts to join the Extractive Industries Transparency Initiative (EITI). The Government will facilitate and accelerate the formation of a tripartite group with representatives of the Government, extractive companies, and civil society to produce without further delay the necessary report and submit it to the Secretariat of the EITI for validation. The EITI's goals of transparency will be upheld in the development of the new oil and mining codes that are under preparation by the Ministry for Hydrocarbons and the Ministry of Mines, respectively.

J. Statistics

43. The Government has started an ambitious program to improve economic statistics in Gabon. Demographic and health surveys will be completed and published in 2018 and 2019, respectively. Other surveys (including poverty, companies, employment, informal sector, and household surveys) will be conducted by 2019. With the support of AFRITAC and BEAC, the Government has intensified its efforts to improve the quality, coverage, and timeliness of statistics, including the national accounts, fiscal data, and balance of payments. The national accounts were revised for the period 2011 to 2015 and preparations are underway to finalize those for 2016 and 2017 by October 2018. The government financial statistics for the period 2012 to 2016 were already transposed according to the new classification of the Handbook of Government financial statistics of the IMF (GFS) and transmitted to the statistical databases of the IMF.

Support for High-Level Public-Private Dialogue

44. The platform for a high-level public-private dialogue has begun its work and the Government is committed to supervising it. The High Council of Investment (HCI) already held two meetings since 2017: one to adopt its procedural rules and action plan, and the other to discuss the domestic arrears clearance strategy. Such dialogue and the HCI are essential to secure private sector support for crucial reforms related to the business climate, which were delayed because of differences in opinion. The Government is thus determined to continue supervising such dialogue and to increase the frequency of HCI meetings.

K. 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 third review is set for December 2018, based on end-June 2018 quantitative performance criteria, the continuous performance criterion and relevant structural benchmarks. For all reviews, quantitative performance criteria will include: a floor on non-oil revenue, 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 Tables 3 and 4. The quantitative targets for target dates through end-June 2018, along with a continuous quantitative performance criterion are set out in Tables 1 and 2.

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

(Billions of CFAfrancs, unless otherwise indicated)

	2016		2017															
	December		March				June				September				December			
	Prel. Prog.	Act.[5]	Prog.[3]	Adj. Rev. Prog. IT[6]	Act.	Status	Prog.[3]	Adj. PC	Act.	Status	Prog.[3]	Adj. IT	Act.	Status	Prog.[4]	Adj. PC	Act.	Status
I Quantitative Performance Criteria																		
Floor on primary fiscal balance, excluding oil revenue (on a payment order basis)[7]	-646.1	-646.1	-167.1	-220.1	-146.2	**Met**	-331.2	-251.2	-221.9	**Met**	-358.6	-278.6	-389.7	**Not Met**	-559.3	-479.3	-581.6	**Not Met**
Unadjusted target (floor)				-167.1				-331.2				-358.6				-559.3		
Adjustment for lower (higher) than expected external program disbursements				-53.0				80.0				80.0				80.0		
Ceiling on stock of net claims of the banking system on the central government[8]	574.2	653.7	521.4	547.9	662.1	**Not Met**	724.2	804.2	646.9	**Met**	742.7	822.7	640.5	**Met**	819.1	899.1	664.4	**Met**
Unadjusted target (ceiling)				600.9				724.2				742.7				819.1		
Adjustment for lower (higher) than expected external program disbursements				-53.0				80.0				80.0				80.0		
Adjustment for oil revenue shortfall due to international price movements				0.0				0.0				0.0				0.0		
Adjustment for commercial bank purchases of nonbank government domestic debt				0.0				0.0				0.0				0.0		
Ceiling on central bank net claims on central government, excluding use of IMF credit	240.7	220.6	240.7		252.9	**Not Met**	240.7	...	210.5	**Met**	240.7	...	217.9	**Met**	220.6	...	138.0	**Met**
Ceiling on contracting or guaranteeing of external debt (program and project)[9]	...	...	191.9		138.9	**Met**	329.4	329.4	225.8	**Met**	511.1	511.1	346.6	**Met**	916.2	916.2	779.5	**Met**
Unadjusted target (ceiling)								329.4				511.1				916.2		
Adjustment for early (late) external program disbursements								0.0				0.0				0.0		
Adjustment for variation in financing conditions								0.0				0.0				0.0		
II Continuous Performance Criterion																		
Ceiling on accumulation of new external arrears by the central government[10]			0		66	**Not Met**	0	...	110	**Not Met**	0	...	144	**Not Met**	0.0	...	6	**Not Met**
III Indicative Targets																		
Ceiling on the stock of domestic arrears	638.6	638.6	638.5		589.0	**Met**	638.5	...	637.2	**Met**	577.6	...	610.3	**Not Met**	453.5	...	567.9	**Not Met**
Floor on government tax revenue, excluding oil revenue	899.4	899.4	196.9		212.5	**Met**	379.2	...	463.0	**Met**	693.9	...	617.3	**Not Met**	860.9	...	770.0	**Not Met**
Floor on social protection spending[11]	...	...	30.3		...		68.2	...	49.4	**Not Met**	106.1	...	58.5	**Not Met**	151.6	...	58.5	**Not Met**

Sources: Gabonese authorities and IMF staff estimates.

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

2/ Cumulative amount from January 1, 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/ Staff report on the Request for an Extended Arrangement Under the Extended Fund Facility (June 6, 2017; EBS/17/52).

4/ Staff report on the First Review Under the Extended Arrangement Under the Extended Fund Facility (December 4, 2017; EBS/17/408).

5/ Reflects revised end-December 2016 monetary data, which revises data on net central bank and banking system claims.

6/ The authorities' own target.

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

8/ The performance criterion will be adjusted for any under/overperformance of programmed oil revenue due to changes in international oil prices. It will also be adjusted upward (downward) for any lower (higher) external disbursements relative to baseline projections, to a maximum of CFAF 80 billion. Finally, the performance criterion will be adjusted upward for any increase in commercial bank credit to the government reflecting new purchases by commercial banks of existing government domestic debt owed to nonbanks (rachat des creances).

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

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

11/ 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: Proposed Quantitative Program Targets, 2017–19[1, 2]

(Billions of CFA francs, unless otherwise indicated)

	2017		2018												2019	
	December		March				June				September		December		March	June
	Prog.[3]	Act.	Prog.[3]	Adj.	Est.		Prog.[3]	Adj.	Proj.		IT[3]	Rev. IT	IT[3]	PC	IT	IT
	PC		IT			**Status**	PC			**Status**						
I Quantitative Performance Criteria																
Floor on primary fiscal balance, excluding oil revenue (on a payment order basis)[4]	-559.3	-581.6	-104.3	-24.3	-194.5	**Not Met**	-173.0	-93.0	-285.3	**Estimated Not Met**	-301.1	-333.8	-387.9	-446.2	-76.5	-13.7
Unadjusted target (floor)				-104.3				-173.0								
Adjustment for lower (higher) than expected external program disbursements				80.0				80.0								
Ceiling on stock of net claims of the banking system on the central government[5]	819.1	664.4	861.1	941.1	864.7	**Met**	878.3	958.3	913.1		921.5	1087.9	911.5	826.0	809.5	870.1
Unadjusted target (ceiling)				861.1				878.3								
Adjustment for lower (higher) than expected external program disbursements				80.0				80.0								
Adjustment for oil revenue shortfall due to international price movements				0.0				0.0								
Adjustment for commercial bank purchases of nonbank government domestic debt				0.0				0.0								
Ceiling on central bank net claims on central government, excluding use of IMF credit	220.6	138.0	219.2	...	341.6	**Not Met**	193.3	...	382.5	**Estimated Not Met**	193.3	382.5	141.5	107.2	107.2	107.2
Ceiling on contracting or guaranteeing of external debt (program and project)[6]	916.2	779.5	99.7	99.7	11.1	**Met**	205.9	205.9	26.7		284.0	143.8	485.7	522.8	73.5	227.8
Unadjusted target (ceiling)				99.7				205.9								
Adjustment for early (late) external program disbursements				0.0				0.0								
Adjustment for variation in financing conditions				0.0				0.0								
II Continuous Performance Criterion																
Ceiling on accumulation of new external arrears by the central government[7]	0	6	0	...	46	**Not Met**	0	...	78.2	**Not Met**	0	0	0	0	0	0
III Indicative Targets																
Ceiling on the stock of domestic arrears	453.5	553.8	379.0	...	572.6	**Not Met**	304.5	...	527.7		280.0	465.4	228.6	372.6	354.0	333.9
Floor on government tax revenue, excluding oil revenue[8]	860.9	770.0	275.1	...	179.9	**Not Met**	570.5	...	423.1		771.1	596.3	1028.1	941.3	199.7	529.6
Floor on social protection spending[9]	151.6	58.5	30.3	...	...	**Pending**	68.2	...	...		106.1	150.0	151.6	214.3	...	...

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/ Staff report on the First Review Under the Extended Arrangement Under the Extended Fund Facility (December 4, 2017; EBS/17/408).

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

5/ The performance criterion will be adjusted for any over/underperformance in programmed oil revenue due to changes in international oil prices. It will also be adjusted upward (downward) for any lower (higher) external disbursements relative to baseline projections, to a maximum of CFAF 80 billion. Finally, the performance criterion will be adjusted upward for any increase in commercial bank credit to the government reflecting new purchases by commercial banks of existing government domestic debt owed to nonbanks (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/ Reports the current stock of new arrears that have been accumulated since the latest review. The latest estimate is as of July 18th 2018.

8/ The indicative target on the floor on government tax revenue, excluding oil revenue will be converted to a performance criterion beginning with the end-December 2018 quantitative program target.

9/ Includes spending on health (i.e. primary and preventive care), education (pre-primary, primary, and secondary education), and social safety net programs. 2019 targets to be determined in conjunction with budget preparations.

Table 3. Gabon: Structural Benchmarks for 2017–18

Sector/Measure	Macroeconomic Rationale	Related Documentation	Timeframe	Status	Proposed New Timeframe
Public Expenditure Management (PFM)					
Implement the VECTIS module to allow for the systematic issuance of mandatory payment orders; sensitize suppliers and administrative officers on the new procedure.[1]	Reduce budget risks	Copies of press releases by the Budget Ministry and reports of training sessions with administrative officers.	End-June 2017	Met	
Publish quarterly reports on the amount and composition of the stock of unpaid payment orders and arrears.	Reduce budget risks	Copies of the quarterly reports produced by the Budget Ministry and verification of online posting.	End-September 2017 (for preceding quarter)	Not Met[2]	
Publish cost-benefit analyses for investment projects authorized by the budget law, whose budgets exceed CFAF 20 billion.	Improve public investment management	Publication of analyses as an annex to the 2019 Budget Law.	End-December 2017	Not Met	End-December 2018
Complete an independent audit of 2015 and 2016 domestic expenditure arrears.	Reduce budget risks	Publication of the audit report in the webpage of the Ministry of Economy.	End-March 2018	Not Met	End-September 2018
Publish, within 55 days from the end of the quarter, quarterly budget execution reports transmitted to Parliament, using elements and nomenclature of the budget law and including a specific analysis on social spending.	Improve transparency of budget execution and fiscal reporting	Reports published on the Budget Ministry website's homepage.	End-February 2018[3]	Not Met[4]	
Adapt the E-BOP information system to the new expenditure execution procedure to allow the systematic issuance of purchase orders, and train local staff concerned in the new procedure.	Improve transparency and efficiency of public spending	Copies of the order forms issued by the system and report on the training completed.	End-January 2018;	Not Met[5]	**Prior action, 2nd EFF review**
List all central government entities whose funds are not deposited on the Treasury single account[6], and strictly limit the opening of new bank accounts.	Improve and rationalize cash flow management	Inventory submitted to IMF staff.	End-January 2018;	Not Met[6]	**Prior action, 2nd EFF review**

[1] FAD has provided relevant technical assistance. 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.

[2] A first draft of the report is available but had not been published as of June 24, 2018.

[3] The first report will provide information for the fourth quarter of 2017. Each subsequent report will be published 55 days after the end of the quarter. 65 days will be allowed for the report related to Q4 each year, considering time lags between payment orders and payments in the last quarter (complementary period).

[4] The report for the first quarter of 2017 was published in May 2018. The report for the fourth quarter of 2017 has not yet been produced (as of June 24, 2018).

[5] The structural benchmarks on the E-BOP information system and the list of central government entities with deposits outside the TSA are prior actions for the 2nd review under the Extended Arrangement.

[6] These include accounts managed by social security funds and other trust funds, extra-budgetary funds and autonomous government entities.

Table 3. Gabon: Structural Benchmarks for 2017–18 (continued)

Sector/Measure	Macroeconomic Rationale	Related Documentation	Timeframe	Status	Proposed New Timeframe
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.	Strengthen revenue mobilization	Copy of the annex to the 2018 Budget Law.	End-December 2017	Not Met[1]	End-July 2018
Eliminate tax and customs exemptions from computer software system that do not have a legal basis.	Boost revenue collection	Report providing the list of custom codes extracted from the IT system on the nature and amounts of the retained tax and custom exemptions.	End-March 2018	Met	
Inform importers that upfront payment is the regular procedure for the clearance of customs debts and define the list and selection criteria for importers eligible for a bonded bank guarantee (*crédit d'enlèvement*).	Boost revenue collection	Report on the sensitization campaign and the list and selection criteria for importers eligible for the removal credits.	End-March 2018	Not Met[2]	
Regularize tax situation of importers not subject to VAT, but whose transactions exceed the VAT liability threshold.	Boost revenue collection	Report on completed tax adjustments.	End-March 2018	Not Met[3]	End-July 2018
Debt Management					
Clear all external arrears to official external creditors.	Strengthen debt and cash management	Signed letter of confirmation from the Minister of Economy	Prior Action	Met	
Update the debt management strategy that is annexed to the budget law, including a strategy for the clearance of arrears based on transparent criteria for prioritization of external and domestic arrears payments.[4]	Ensures government's gross financing needs and payment obligations are met on a timely basis at a reasonable cost	Publication of the updated debt management strategy and of the arrears liquidation plan on Economy and Budget Ministries websites' homepage	End-January 2018;	Not Met[5]	End-July 2018

[1] This annex is expected to be attached to the 2018 Supplementary Budget.
[2] The sensitization campaign has been completed. The list of selection criteria for importers eligible for the removal credits is currently being validated.
[3] This measure is expected to be fully implemented at end-July 2018.
[4] This strategy should be based on a quarterly cash flow plan.
[5] The strategy is expected to be attached to the 2018 supplementary budget.

Table 3. Gabon: Structural Benchmarks for 2017–18 (concluded)

Sector/Measure	Macroeconomic Rationale	Related Documentation	Timeframe	Status	Proposed New Timeframe
Financial Sector					
Prepare a plan for the orderly resolution of the activities of the three distressed state-owned banks.	Reduce financial sector vulnerabilities and fiscal risks.	Copy of the document signed by Minister of Economy.	End-July 2017	Met	
Prepare a national strategy to strengthen legal and supervisory frameworks concerning non-performing loans.	Reduce financial sector vulnerabilities and fiscal risks.	Copy of the document presenting the national strategy signed by Minister of Economy.	End-September 2017	Met	
Prepare an assessment of options, reviewed and agreed by staff, for the resolution/restructuring of the public banks that protects financial stability while minimizing the costs to the state. The report will include description of key assumptions; fiscal cost to the state; and an assessment of forward-looking viability.	Reduce financial sector vulnerabilities and fiscal risks	Copy of the document signed by Minister of Economy	End-March 2018	Not Met	
Business Climate and Diversification					
Establish assessment, validation, and monitoring bodies for PPPs in the Ministry of Economy as provided for by the PPP Law.	Leverage private sector expertise to support investment projects.	Copy of the Presidential decree.	End-September 2017	Met	

Table 4. Gabon: Proposed New Structural Benchmarks for 2018

Sector/Measure	Macroeconomic Rationale	Related Documentation	Proposed Timeframe
Cancellation of 1.5 percent expenditure appropriations under the 2018 Budget Law equivalent to 0.3 percent of GDP.	Relieve liquidity pressures and maintain fiscal sustainability	The executive order prepared by the Budget Minister, signed by the Prime Minister and transmitted to the Parliament for information.	**Prior action, Met 7/11/18**
Senate Adoption of 2018 Supplementary Budget.	Fiscal sustainability	Copy of the draft 2018 Supplementary Budget and press release announcing adoption of the Supplementary Budget	**Prior action, Met 6/29/18**
Public Expenditure Management (PFM)			
Adapt the E-BOP information system to the new expenditure execution procedure to allow the systematic issuance of purchase orders, and train local staff concerned in the new procedure.	Improve transparency and efficiency of public spending	Copies of the order forms issued by the system and launch of the training program.	**Prior action, Met 7/10/18**
List all central government entities whose funds are not deposited on the Treasury single account.[1]	Improve and rationalize cash flow management	Inventory submitted to IMF staff.	**Prior action, Met 7/11/18**
Transmit a letter to the *Fonds Gabonais d'Investissements Strategiques* (FGIS) requesting to put on hold planned acquisition of assets in 2018.	Maintain fiscal discipline and sustainability	Copy of the letter signed by Economy and Budget Ministers.	**Prior action, Met 7/10/18**
Adopt an action plan to upgrade financial information systems of public entities, notably extrabudgetary units managing special accounts, to comply with the new expenditure procedure.	Reduce fiscal risks	Action plan adopted by the Budget Minister submitted to IMF staff.	End-October 2018
Create a single unit responsible for the financial oversight of public entities, including for gathering and coordinating financial information provided these entities.	Reduce fiscal risks	Copy of the enactment creating the policy unit and detailing its tasks.	End-September 2018
Publishing a new decree establishing harmonized statutes for public administrative institutions and repealing earlier provisions.	Reduce fiscal risks	Copies of the decree and verification of online posting. The decree should include provisions to (i) harmonize statues of public administrative institutions, (ii) identify own revenues of those institutions, (iii) comply with the new PFM legal framework, (iv) strengthen financial oversight of these entities, (v) repeal existing regulations establishing statues for public administrative institutions.	End-September 2018
Close central government's accounts opened with the deposits and consignments fund (Caisse des dépôts et consignations, or CDC) and repatriate their balances to the TSA.	Improve and rationalize cash flow management	List of closed accounts including their balances.	End-September 2018

[1] These include accounts managed by social security funds and other trust funds, extra-budgetary funds and autonomous government entities.

Table 4. Gabon: Proposed New Structural Benchmarks for 2018 (concluded)

Sector/Measure	Macroeconomic Rationale	Related Documentation	Proposed Timeframe
Tax Policy/Revenue Administration			
Elimination of duty exemptions under the "program to combat high cost of living" (*programme de lutte contre la vie chère*).	Boost revenue collection	Order of the Economy Minister listing relevant goods and tariffs and requesting the update of the customs IT system; Provision in the 2018 Supplementary Budget detailing exemptions that are maintained; Published press release announcing the measure.	**Prior action, Met 7/10/18**
Introduce a VAT deferred scheme targeting the two oil companies and the national mining company.	Avoid VAT arrears accumulation and reduce liquidities pressure	(i) Revision of the tax code included in the 2019 draft budget law, (ii) order of the Economy minister detailing criteria and procedures, and (iii) letters to the three companies specifying criteria and procedures.	End-October 2018
Collect 40 percent of recoverable tax arrears.	Boost revenue collection	Reports on completed tax adjustments.	End-September 2018
Clear 50 percent of expired suspensive customs procedures.	Boost revenue collection	Report on completed recovery procedures, including a list of targeted companies and detailing reached outcomes.	End-December 2018

Attachment II. Technical Memorandum of Understanding

July 24, 2018

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 July 24, 2018, and the attached Memorandum of Economic and Financial Policies (MEFP). As is standard under all Fund arrangements, we will consult with the Fund before modifying measures contained in the LOI/MEFP, or adopting new measures that would deviate from the goals of the program, and provide the Fund with the necessary information for program monitoring.

2. **The QPCs and IT are shown in Table 1 of the MEFP. Prior actions and structural benchmarks are listed in Table 2 of the MEFP.** For program monitoring purposes, quantitative performance criteria (PCs) and indicative targets (ITs) are set for December 31, 2018; the same variables are an indicative target for September 30, 2018; March 30, 2019; and June 30, 2019.

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 546.89 as of June 1, 2018. 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 1.1994 U.S. dollars, Pound Sterling valued at 0.7868 U.S. dollars, the Chinese Yuan valued at 6.8812 U.S. dollars, the Special Drawing Right (SDR) valued at 1.4331 U.S. dollars. Official gold holdings were valued at 1,314.42 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.**

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

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

i. total central government revenue on a cash basis (excluding oil revenue), and;

ii. total central government expenditure on a payment order basis excluding interest payments.

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

8. Definition. Total CG revenue (excluding oil revenue) is measured on a cash basis and includes offsetting revenue and expenditure operations, including private sector tax obligations offset against central government obligations to the private sector. Tax receipts are specified in the Table of central government financial operations (*Tableau des opérations financières de l'Etat–TOFE*), including all earmarked revenues (Road Fund and special funds). Oil revenue includes payments received in cash and in crude (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.

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

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

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 1, to a maximum of CFAF 80 billion.

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

Cumulative flows from the beginning of the year	Prog. (In US$ Millions)
External loans for budget support	
End March 2018	0.0
End June 2018	0.0
End September 2018	147.4
End December 2018	757.4
End March 2019	0.0
End June 2019	147.8
External loans for project financing	
End March 2018	15.5
End June 2018	38.7
End September 2018	97.8
End December 2018	173.1
End March 2019	128.0
End June 2019	256.1
External loans from commercial sources and international capital markets	
End March 2018	4.9
End June 2018	10.0
End September 2018	17.7
End December 2018	25.5
End March 2019	6.4
End June 2019	12.7

Sources: Gabonese authorities and IMF staff projections.

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

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

i. Central bank net claims on CG, including deposits, loans, advances, accounts receivable, and any other government claim or liability as defined in the monetary survey.

ii. Other depository corporation net claims on CG, including securities of the CG, loans to central government, other advances to CG, and deposits of the central government with depository corporations.

14. Thus defined. the net claims of the banking system on the central government amounted to CFAF 646.9 billion as of June 30, 2017 (Text Table 2).

Text Table 2. Gabon: Net Claims on Central Government
(CFAF billions, stock)

	Dec-15	Dec-16	Jun-17
Banking system, Net claims on central government	143.5	653.7	646.9
Central Bank, Net claims on central government	-79.5	220.6	268.5
Claims on central government	452.9	452.7	511.0
Loans to central government	452.5	452.5	452.5
Use of IMF credit	0.0	0.0	58.0
Other	0.4	0.2	0.4
Liabilities to central government	532.4	232.1	242.4
Treasury vault cash	18.6	36.8	36.8
Fund for Future Generations/Sovereign Wealth Fund	146.6	150.2	122.3
Treasury current accounts at the BEAC	367.2	45.1	83.3
Other Depository Corporations, net claims on central government	223.0	433.1	378.4
Claims on central government	412.0	621.7	582.7
Securities Central Government	357.7	517.6	500.1
Regional bonds	54.3	104.2	82.5
Liabilities to central government	189.1	188.6	204.3
Treasury deposits	42.2	42.2	36.1
Other deposits	146.9	146.4	168.2
CCA	0.0	0.0	0.0

Source: BEAC

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 Text Table 1, up to a maximum of CFAF 80 billion.

ii. With the objective of shielding fiscal objectives from uncertainties regarding oil prices, the ceiling on net claims of the banking system will be:

   a. If Brent oil price projections as reported by IMF-WEO decline by up to 25 percent relative to the program baseline (US$73.258 per barrel), the ceiling will be adjusted upward to accommodate the shortfall in oil revenue in a given quarter.

   b. If Brent oil price projections as reported by IMF-WEO decline by more than 25 percent relative to the baseline program projection, then a consultation between the government and the IMF is required.

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

iii. The program ceiling will be adjusted upward to reflect any purchase by commercial banks of outstanding contractual government credit (*rachat de créances*) and government bonds issued on the CEMAC market held by non-bank private sector creditors as of end-2017.

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

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

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

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

i. With the objective of shielding fiscal objectives from uncertainties regarding oil prices, the ceiling on net claims of the banking system will be:

   a. If Brent oil price projections as reported by IMF-WEO decline by up to 25 percent relative to the program baseline (US$73.258 per barrel), the ceiling will be adjusted upward to accommodate the shortfall in oil revenue in a given quarter.

   b. If Brent oil price projections as reported by IMF-WEO decline by more than 25 percent relative to the baseline program projection, then a consultation between the government and the IMF is required.

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

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

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

i. For the purpose of these guidelines, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms; the primary ones being as follows:

   a. 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);

   b. 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

   c. leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of these guidelines, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.

ii. Under the definition of debt set out in this paragraph, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

22. Definition. For the purposes of the ceiling on 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 documentation.

23. Adjusters.

i. The program ceiling applicable to new external debt is adjusted upward up to a maximum of 5 percent of the ceiling on new external debt in cases in which differences vis-à-vis the PC on new debt are caused by a variation in financing conditions (interest, maturity, grace period, payment schedule, front-end fees, management fees) of the debt or debts. The 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.

24. 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.

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

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

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

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

27. Definition. The program will have a floor on CG non-oil revenue. Non-oil revenue refers to revenue from tax and non-tax collection and exclude all revenue from asset sales, grants, and oil revenue. The floor on government tax revenue, excluding oil revenue is an indicative target for end-

June 2018, and is a performance criterion beginning with the end-December 2018 quantitative program target.

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

II. QUANTITATIVE INDICATIVE TARGETS: DEFINITION OF VARIABLES

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

29. **Definition.** The stock of domestic payment arrears of the CG is defined as the sum of all contractual obligations that remained unpaid 90 days after the payment order date. This stock includes, but is not limited to, payment obligations from procurement contracts for goods and services and other contracts providing for payment in domestic currency, as well as statutory obligations for payment (e.g., civil service wages, VAT reimbursements, and other entitlements). The cumulative floor on the net reduction of the stock of domestic arrears of the CG is measured as the stock of outstanding domestic arrears on the test date minus the stock of outstanding domestic arrears as of January 1, 2017.

30. **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.

B. Cumulative Floor on Central Government Social Spending

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

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

III. PROGRAM MONITORING

A. Reporting Requirements

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

- the comprehensive monetary survey, the central bank balance sheet, and the consolidated balance sheet of the commercial banks (electronic file);
- the central government financial operations (*opérations financières de l'Etat)* on a payment order basis (*ordonnancements*), identifying any discrepancy between the fiscal deficit and changes in domestic and external arrears and in the treasury float, on the one hand, and total net domestic bank/nonbank and net external financing, on the other (electronic file);
- the detailed breakdown of oil revenue by type of revenue (royalties, profit tax, dividends, bonuses and other) and by company/type of contract, as well as the detailed breakdown of non-oil tax revenue (by type of tax) and nontax revenue (electronic file);
- the detailed breakdown of total central government expenditure, on an adjusted commitment basis, adjusted payment order basis, and cash basis as presented in the *Tableau Intégré* (electronic file);
- the details for domestic and external debt-service obligations, on a contractual and actual payments basis, respectively, with a breakdown into interest and principal and by creditor, as well as any possible accumulation of domestic or external arrears (electronic file);
- the details on the stock of external and domestic debt at the end of each quarter prepared by the Generate Directorate of Debt. The external debt stock is to be evaluated at end-of-quarter exchange rates (electronic file);
- the details for the outstanding stock of the treasury float (month to month) and the cumulative flows from January 1, 2017; the net accumulation of new float since 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 and 2017 onwards 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 July 24, 2018.

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.