

**Gabon: Request for Stand-By Arrangement—Staff Report; Staff Supplement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Gabon**

In the context of the request for Stand-By Arrangement, the following documents have been released and are included in this package:

- the staff report for the request for a request for Stand-By Arrangement, prepared by a staff team of the IMF, following discussions that ended on **March 16, 2004**, with the officials of Gabon on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on May 17, 2004.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- a supplement of **May 26, 2004** updating information on recent developments.
- a Press Release summarizing the **views of the Executive Board as expressed during its May 28, 2004 discussion** of the staff report that completed the request.
- a statement by the Executive Director for Gabon.

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

Letter of Intent sent to the IMF by the authorities of Gabon\*  
Memorandum of Economic and Financial Policies by the authorities of Gabon\*  
Technical Memorandum of Understanding\*

\*May also be included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

GABON

**Request for Stand-By Arrangement**

Prepared by the African and Policy Development and Review Departments

(In consultation with Finance, Fiscal Affairs, Legal, Monetary and Financial Systems,  
and Statistics Departments)

Approved by Amor Tahari and Juha Kähkönen

May 17, 2004

**Stand-By Arrangement.** The Gabonese authorities have requested a 14-month Stand-By Arrangement after a staff-monitored program (SMP) covering the period September-December 2003. Total access would be SDR 69.44, or 45 percent of Gabon's quota (38.5 percent on an annual basis), in view of the external financing needs and the strength of the proposed adjustment.

**Objectives of the program.** Key objectives are to reduce the external debt burden by sustaining fiscal adjustment, fostering non-oil growth and reducing poverty. Fiscal policy centers on measures to reduce the wage bill, enhance tax revenue, and strengthen local authorities' finances, and is accompanied by reforms in public expenditure management. Other key structural reforms address public enterprise restructuring and privatization, the improvement of the investment climate, and forestry sector management.

**Performance under the SMP.** The performance in 2003 under the SMP was satisfactory. Out of six quantitative benchmarks at end-2003, four were met. The net credit to government benchmark was not observed on account of lower non-oil revenues and nonbank financing. In addition, a benchmark on nonaccumulation of nonreschedulable external arrears was missed by a small margin, owing to managerial inaccuracy, as small debt-service payments due in November and December were effected in early February 2004. Out of eleven structural benchmarks, nine were observed.

**Coordination with the World Bank.** The World Bank is involved in public enterprise privatization, private sector development, forestry reforms, urban infrastructure, and poverty analysis.

**Discussions.** Held in Libreville during March 3–16, 2004. The staff met with President Omar Bongo Ondimba, the Prime Minister, the Presidents of the National Assembly and the Senate, the Minister of Economy and Finance, other senior officials, and representatives of the private sector and of the donor community. The staff team comprised E. Sacerdoti (head), J. Ntamatungiro, O. Melhado, M. Snyder (staff assistant) (all AFR), G. Di Bella (PDR), J. Helis (FAD), and R. Randriamaholy (Resident Representative). T. Nguema-Affane (OED) attended some meetings.

Contents	Page
Executive Summary .....	4
I. Introduction .....	6
II. Recent Economic Developments and Performance Under the SMP .....	7
III. Policy Discussions on the 2004–05 Program.....	14
A. Fiscal Policy and Reforms .....	16
B. Monetary Policy and Financial Sector Reforms .....	19
C. External Sector Policies and Prospects, Debt Sustainability, and Capacity to Repay the Fund.....	21
D. Other Structural Reforms and Governance .....	23
E. PRSP Preparation Process .....	26
IV. Risks to the Program And Program Monitoring.....	26
A. Risks to the Program .....	26
B. Fund Conditionality.....	27
C. Collaboration with the World Bank .....	27
V. Staff Appraisal .....	28
Boxes	
1. Soundness of the Banking System.....	10
2. Structural Reform Implementation Since October 2003 .....	13
3. Domestic and External Arrears.....	20
4. Forestry Sector Reforms Under Way.....	25
Tables	
1. Selected Economic Indicators, 2000–06.....	31
2. Fiscal Operations of the Central Government, 2001–04 .....	33
3. Fiscal Operations of the Central Government, 2000–06 .....	35
4. Quarterly Monetary Survey, 2002–04 .....	37
5. Monetary Survey, 2000–06.....	38
6. Balance of Payments, 2000–06.....	39
7. Quantitative Benchmarks and Indicative Targets Under the Staff-Monitored Program, 2002–03 .....	41
8. Status of Implementation of Structural Benchmarks Under the Staff-Monitored Program .....	42
9. External Financing Requirements and Sources, 2003–06 .....	44
10. External Debt Outstanding and Scheduled Debt Service, 2000–06 .....	45
11. Indicators of External Vulnerability, 1999–2003 .....	47

12.	Purchase Schedule and Terms Under the Proposed Stand-By Arrangement, 2004–05 .....	48
13.	Fund Position During the Period of the Proposed Stand-By Arrangement, 2004–07 ....	49
14.	Indicators of Financial Obligations to the Fund, 2000–09 .....	50
15.	Income and Social Indicators, 1970–2001 .....	51

## Appendices

### Appendix I

	Attachment: Letter of Intent .....	52
	Annex I: Memorandum of Economic and Financial Policies for 2004–05 .....	54
	Table 1. Quantitative Performance and Indicative Targets Under the Stand-By Arrangement, 2003–04 .....	69
	Table 2. Prior Actions, and Structural Performance Criteria and Benchmarks Under Proposed Stand-By Arrangement, 2004–05 .....	70
	Annex II. Technical Memorandum of Understanding .....	73
II.	Relations with the Fund .....	82
III.	Relations with the World Bank .....	84
IV.	Assessing External and Public Sector Debt Sustainability .....	89
	Table 1. External Debt Sustainability Framework, 1999–2013 .....	93
	Table 2. Public Sector Debt Sustainability Framework, 1999–2013 .....	94
	Table 3. Baseline Debt Sustainability Analysis, 2003–23 .....	95
	Table 4. Macroeconomic Projections for the Baseline DSA, 2003–23 .....	96
	Figure 1. External Debt Sustainability, 2003–11 .....	97
	Figure 2. Total Public Sector Debt Sustainability, 2003–11 .....	98
V.	Bank of Central African States: Safeguards Assessment .....	99
VI.	Statistical Issues .....	100

## EXECUTIVE SUMMARY

- **Gabon's economy continues to face major challenges, including a drop in oil production, a heavy debt burden, and weak social indicators.** Following a pattern of intermittent adjustment and recurrent excess spending, the authorities have shown since mid-2002 a new resolve to address these challenges through sustained fiscal adjustment and comprehensive structural reforms. This has led to improved policy performance during 2003, and in particular under the staff-monitored program (SMP) covering the period September-December 2003.
- **Macroeconomic performance in 2003 was generally positive.** A higher-than-anticipated rise in oil GDP more than offset lower-than-expected growth of non-oil GDP. As a result, total real GDP grew by 2.8 percent in 2003, as opposed to a stagnation projected under the SMP. The 12-month inflation rate continued to be subdued, at 2 percent, in line with the program.
- **Performance under the SMP was broadly satisfactory.** Out of six quantitative benchmarks at end-2003, four were met and two were missed, of which one by a very small margin. Nine structural benchmarks were observed and one was missed, while one was met with a one-month delay.
- **Overall fiscal performance was strong, as the non-oil primary deficit was reduced by 8.6 percentage points to 8.2 percent of non-oil GDP in 2003.** Non-oil revenue shortfalls were offset by lower primary expenditure. However, the composition of expenditure was not in line with the program because of a larger wage bill and lower capital expenditure. Moreover, there has been a deterioration in the financial position of local authorities and social security funds.
- **The authorities have strengthened their medium-term program, so as to address the weaknesses in public finances that came to the fore under the SMP and tackle the impediments to private sector development, while improving social indicators.** They are mindful that sustaining the fiscal adjustment and establishing conditions for strong non-oil sector growth are essential, in order to ensure a reduction in the debt to sustainable levels and an improvement in social conditions. On the basis of broadly satisfactory performance under the SMP and the strength of their program, the authorities have requested Fund support under a 14-month Stand-By Arrangement.
- **The program aims at fostering non-oil sector growth and the diversification of the economy through sustained fiscal adjustment and comprehensive structural and social reforms.** The non-oil primary deficit is to be reduced further to 7.5 percent of non-oil GDP in 2004 and 5.7 percent in 2005. On the structural front, the program focuses on the forestry sector, key infrastructure, the public investment program, the financial sector, and barriers to private sector development.

- The program envisages the finalization of a well-focused PRSP in the context of a fully participatory process and the establishment of detailed master plans for the priority social sectors, including quantified objectives and costs.
- **The program presents significant risks**, as the authorities have not been able in the past to sustain protracted fiscal adjustment, in particular when elections were approaching, and there are uncertainties on the ability to achieve the envisaged non-oil sector growth, although recent privatizations have fostered capital inflows. Slippages on the fiscal front and on GDP growth would worsen the debt profile, thus jeopardizing prospects for debt sustainability. To address the risks, the program includes quarterly reviews and targets, and in the structural area there is a front loading of measures, in particular concerning privatization.

## I. INTRODUCTION

1. **Gabon's economy continues to face major challenges, including a drop in oil production, a heavy debt burden, and weak social indicators.** Following a pattern of intermittent adjustment and recurrent excess spending, the authorities have shown since mid-2002 a new resolve to address these challenges through sustained fiscal adjustment and comprehensive structural reforms, having realized that the decline in oil revenue is irreversible. The determination for change, which is shared by all levels of government and by civil society,<sup>1</sup> has manifested itself in improved policy performance since 2002, in particular under the staff-monitored program (SMP) covering the period September-December 2003.

2. **Even though its income per-capita is similar to that of middle-income countries (US\$4,675 in 2003), Gabon's social indicators remain weak.** About 62 percent of the population lives below the poverty line and access to basic social services is limited. Economic activity is dominated by the public sector, which is the main employer and maintains relatively high wages. While there is considerable potential for development of the non-oil economy (see Country Report 04/28, Box 4), this is hampered by relatively high production costs and weak governance.

3. President Omar Bongo Ondimba has been in power since 1967 and is expected to run again in the next presidential elections scheduled for late 2005. Election periods have represented in the past the occasion of serious fiscal slippages.

4. **In early 2003, the authorities prepared a medium-term program aimed at sustaining fiscal adjustment and boosting non-oil growth,** including measures to speed up the privatization process, improve governance, and enhance the investment climate. The measures already undertaken under that program include the following: (i) strengthening budgetary management through the introduction of a computerized budget information system based on a new, detailed budget classification system, and through the abolition of advance payments outside the regular expenditure process; (ii) reorganizing the tax administration; (iii) adopting and implementing the new procurement code; and (iv) implementing reforms in the area of governance, including the establishment of the National Commission Against Illicit Enrichment and the adoption of an ethics code for civil servants. In order to build a track record that could lead to a Fund-supported program, the authorities entered into an SMP for September-December 2003, that incorporated the first phase of their medium-term program for 2003-06. On the basis of the broadly satisfactory performance under the SMP, and the strength of their program, the authorities have requested , in a letter

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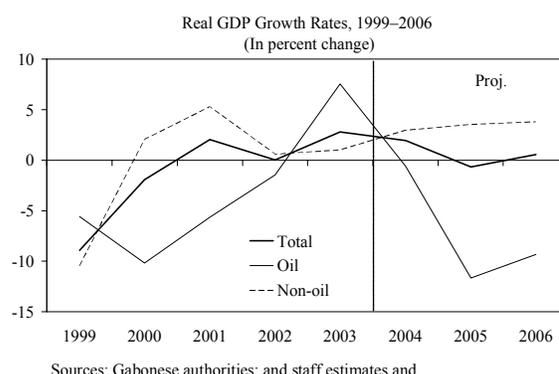
<sup>1</sup> In a bid to create favorable conditions to carry out the needed reforms, a three-year "social truce" was signed on September 26, 2003 by the government and representatives of 55 trade union organizations. A monitoring committee has been established.

dated May 6, 2004 accompanied by a memorandum of economic and financial policies (Appendix I, Attachment I), that the program for 2004-05 be supported by a 14-month Stand-By Arrangement, covering the period May 2004-June 2005, in an amount equivalent to SDR 69.44 million, or 45 percent of Gabon's quota.

## II. RECENT ECONOMIC DEVELOPMENTS AND PERFORMANCE UNDER THE SMP

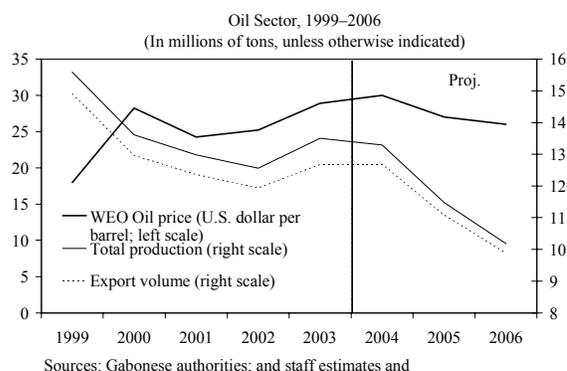
### 5. Macroeconomic performance in 2003 was generally positive, although non-oil GDP grew by less than expected (Table 1):

- Preliminary information shows that real GDP grew by 2.8 percent in 2003; the unexpected rise in oil production and oil GDP more than offset the lower-than expected growth of non-oil GDP. Oil production reached 13.4 million tons, compared with 12.3 millions tons in the program and 12.6 million tons in 2002, as a result of the large**



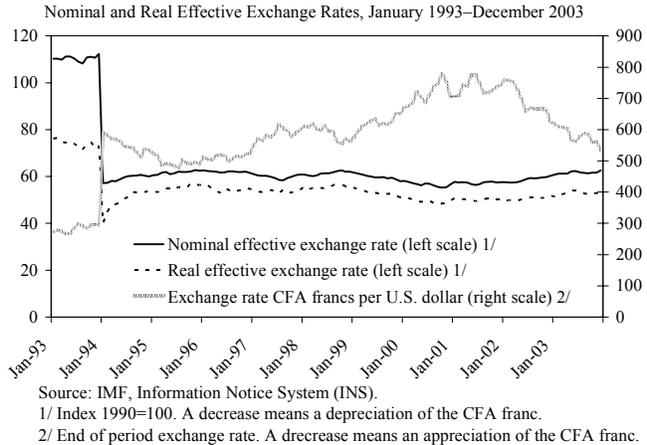
investments made in the Rabi field to introduce new extraction technologies and increased production in small, recently

developed fields. The non-oil sector grew by 1.0 percent, compared with a program projection of 2.4 percent. This weak performance resulted from a contraction of construction and public works and a sluggish growth of services, partly offset by satisfactory performance in the mining, transports, and agriculture sectors. In the crucial forestry sector, the volume of timber cut and exports of logs declined by 1 percent and 3.3 percent, respectively, on account of a decline in exports to the Chinese market in the last quarter of the year.<sup>2</sup> On the other hand, the volume of production and exports of processed wood products continued to rise sharply, as new processing units entered in production. Mining performed better than expected, reflecting a 5 percent rise in the production of manganese.

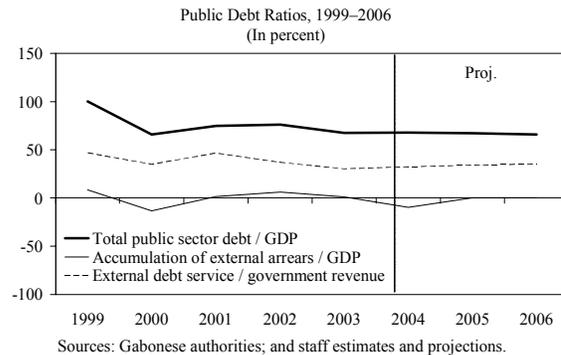


<sup>2</sup> This is attributable to lower shipping capacity and the need to renegotiate downwards export prices because of an appreciation of the exchange rate and higher international shipping costs.

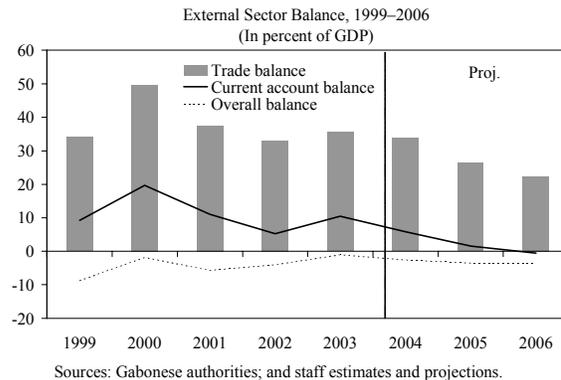
- The 12-month inflation rate continued to be subdued, at 2 percent in December 2003, in line with the program.** The real effective exchange rate appreciated in 2002 and 2003 because of the nominal depreciation of the U.S. dollar vis-à-vis the euro; however, the real effective depreciation associated with the devaluation of the CFA franc in 1994 (33 percent) was largely preserved.



- The overall central government budgetary balance, on a commitment basis and including grants, increased in 2003 to 7.4 percent of GDP, from 3.5 percent in 2002,** buoyed by higher oil revenues and lower capital expenditures. The non-oil primary deficit was reduced to 8.2 percent of non-oil GDP in 2003 from 16.8 percent in 2002 (Tables 2 and 3). However, non-oil revenues were lower than expected, and the wage bill was not contained as envisaged (see below).



- The public debt-to-GDP and external debt-to-GDP ratios declined markedly between end-2002 and end-2003,** by, respectively, 9 and 7 percentage points of GDP (to 67.6 percent and 55.9 percent, Table 1) because of the sizable overall budgetary surplus and the growth of GDP.



- The external current account surplus widened to 10.5 percent of GDP from 5.2 percent in 2002** because of higher oil exports, coupled with a reduction of imports, reflecting weak domestic demand (Tables 1 and 6).<sup>3</sup>

<sup>3</sup> The balance of payments for 2000-02 has been revised to reflect the authorities' presentation, which is consistent with the fifth edition of the Balance of Payments Manual.

(continued)

- **Monetary developments in 2003 were characterized by a contraction of credit to the economy**, which declined by 9.4 percent on an annual basis, contributing to a decline in broad money of 1.2 percent (Tables 4 and 5). The fall in credit is to a great extent attributable to the large arrears repayments by the government, which allowed enterprises to repay bank debt. Another contributory factor is that banks have been reluctant to extend new loans to the forestry sector, after a rapid credit expansion in recent years to finance new investment which resulted in a rise in impaired loans, as weaker operators incurred difficulties. However, the significant restructuring and merging of companies that is now occurring is likely to be followed by a resumption of credit to the sector to finance new initiatives.
- **Commercial banks responded to a deterioration of their credit portfolio by increasing provisioning** (Box 1). The liquidity position of the banks improved sharply, and average lending interest rates decreased from 14.8 percent at end-2002 to 13.3 percent at end-2003.

6. **Performance in 2003 under the SMP was broadly satisfactory** (Tables 7 and 8). Out of six quantitative benchmarks at end-2003, four were observed and two were missed—net credit to the government and the nonaccumulation of nonreschedulable external arrears—but the latter only by a small margin; small debt-service payments due at end-November and in December 2003 were effected only in January 2003 and early February 2004, because of managerial inaccuracy, but were partly offset by excess payments to one creditor in late 2003.

7. **Bank credit to the government at end-2003 exceeded the program target**, but the slippage was significantly smaller than at end-September 2003. The causes of the slippage were (i) lower-than-programmed nonbank financing—on account of the drawdown of their deposits at the treasury by quasi-government agencies (including the Social Guarantee Fund (CNGS), which provides pensions and medical coverage for contractual government worker and the poor) and local authorities; (ii) operations representing an additional decline of the float at the treasury, which, however, were not included in the definition of the float used as a benchmark's adjuster (MEFP, para. 8); and (iii) lower-than-targeted non-oil revenue.<sup>4</sup> The reduction of the slippage between end-September and end-December is mainly due to the

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The new data present a stronger current account balance and a weaker capital account. However, the authorities recognize that the reported short-term capital outflows are likely to include sizable workers' remittances and profit transfers of enterprises, and are making efforts to obtain more information from the reporting banks to refine the balance of payments presentation.

<sup>4</sup> In contrast to the benchmark on the fiscal balance, this was not offset by the lower-than-projected investment spending, as the latter was associated with lower foreign project financing.

### Box 1. Soundness of the Banking Sector

**The banking sector in Gabon comprises five private banks and the government's development bank, BGD.** The banking sector is dominated by the Gabonese International Bank for Commerce and Industry (BICIG), with a share of 49 percent of the market, followed by the Gabonese French International Bank (BGFI), with 23 percent, the Gabonese Bank Union (UGB), with 21 percent, and Citibank with 7 percent, all with majority foreign participation.

**Though nonperforming loans (NPL) at end-2003 increased to 13.8 percent of total loans, from 11.4 percent at end-2002, the increase is explained by a more rigorous classification system following the strengthening of on-site banking supervision. The financial soundness indicators presented below show that the banking sector in Gabon has remained sound in recent years,** with improvements in the liquidity and capital adequacy ratios since 2000. In line with the regional banking commission's (COBAC) requirements, banks responded to the increased NPLs in 2003 by stronger provisioning—the ratio of provisions to NPLs rose from 66.5 percent at end-2002 to 78.8 percent at end-2003.

The banking sector complies with the minimum capital, risk, and liquidity requirements established by the regional banking commission (COBAC). Under the rating system of the COBAC, one of the five banks rated received the highest mark, and the other four the second-highest mark. One bank is not rated because it started operations very recently. Out of concern for excess liquidity in the Central African Economic and Monetary Community, the regional central bank in March 2003 increased the reserve requirements from 3 percent to 5 percent on demand deposits and from 1.75 percent to 3 percent on term deposits. The profitability of banks has been consistently high since 1998, as in 2002 average returns on assets were greater than 5 percent and average returns on equity at 35.3 percent.

Gabon: Banking Sector Soundness Indicators, 1998–2003  
(Ratios in percent)

	1998	1999	2000	2001	2002	2003
<b>Capital adequacy</b>						
Regulatory capital to risk-weighted assets	24.5	23.0	13.2	17.2	17.7	...
Ratio of total loans larger than 15 percent of capital to eight times capital <sup>1/</sup>	4.5	3.1	2.4	7.3	5.0	...
<b>Asset quality</b>						
NPLs to total gross loans	8.9	9.4	6.6	8.7	11.4	13.8
NPLs to total capital	32.3	36.7	35.0	41.5	52.9	59.4
NPL provisions to total NPLs	37.2	36.1	64.7	63.2	66.5	78.8
<b>Earnings and profitability</b>						
Interest margin to gross income	184.7	182.6	159.8	73.8	187.1	...
Return on equity	28.8	31.2	60.2	43.6	35.3	...
Return on assets	5.6	5.4	6.2	5.7	5.2	...
<b>Liquidity</b>						
Liquid assets to short-term liabilities	127.0	134.6	125.4	128.8	139.6	...

Source: Bank of Central African States (BEAC).

<sup>1</sup> According to BEAC prudential regulations, the total of large loans (defined as those exceeding 15 percent of capital) should not exceed eight times banks' capital.

improvement in the position of some quasi-government agencies with the treasury. This outcome highlights weaknesses in the finances of the general government, that are addressed under the 2004 program.

8. **The key quantitative benchmark on the primary budgetary balance was met, as a shortfall in non-oil revenue was offset by lower primary expenditure.** However, the composition of expenditure was not in line with the program because of a larger wage bill and lower capital expenditure.

9. **On the revenue side, non-oil revenue fell short of the 2003 target by CFAF 25 billion, or 0.6 percentage point of non-oil GDP, while oil revenue exceeded projections by CFAF 43 billion (1.2 percent of GDP).** In the last quarter of the year, a significant acceleration of customs revenue substantially narrowed the end-September shortfall. The non-oil revenue shortfall mainly was due to two factors. First, the expected improvement in the collection of business profit taxes did not occur, as the manganese company, COMILOG, resisted the payment of back taxes due, equivalent to CFAF 7 billion (0.3 percent of non-oil GDP); these taxes were finally paid at the beginning of February 2004. Second, the payment by foresters of the taxes due on the area tax and stumpage fee introduced in 2003 remained below projections, as collections started only in the last quarter of 2003; on the positive side, these have shown a rising trend since October.

10. **On the expenditure side, total outlays in 2003 remained below the program target by an amount equivalent to 0.8 percent of non-oil GDP,** mainly on account of lower capital expenditure and Road Fund outlays. The wage bill exceeded the program's annual indicative target by almost 3 percent, primarily because of the unexpected impact of the regularization of the civil servants' administrative position following the 2001 census;<sup>5</sup> meanwhile, the financial impact of the cost-cutting measures adopted in August 2003 (the reduction in the number of senior advisors) was delayed by three months, in accordance with existing civil servants' statutes. Capital outlays fell short of projections by 1 percent of non-oil GDP because of lower foreign-financed investments, although there was a strong acceleration in domestically financed investment in the last quarter.

11. **Out of eleven structural benchmarks under the SMP, nine were observed** (Table 8). Those that were missed related to (i) the ethics code for public officials, which was adopted with a one-month delay in early February 2004; and (ii) the action plan for restructuring the timber marketing board (SNBG), which was not finalized because the

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<sup>5</sup> Civil servants' salary increases due to promotion and advancement over a number of years were not paid. Following the census, the payroll office has updated its records, and wages in 2003 have been paid on the correct basis; however, a significant amount of back pay remains due.

needed study was not appropriately focused. This study is now being re-launched, with World Bank support.<sup>6</sup>

12. **Further progress has been made in the structural reform agenda since October 2003 (Box 2), with a view to improving the investment climate and strengthening the foundations for growth.** In particular, the privatization of public enterprises has been accelerated, and measures have been adopted that have gone beyond those envisaged under the original medium-term program, such as placing under private management the two main ports. The number of products with prices subject to the price surveillance regime was reduced<sup>7</sup>, and the price control directorate was replaced by a directorate for competition and consumer protection. Following the completion of the interim Poverty Reduction Paper (PRSP) in mid-2003, progress has been made, in consultation with the civil society and the donor community, in preparing a full PRSP. The latter is now expected to be completed in early 2005 (see para. 46 below).

13. **A social truce agreement was signed in September 2003 with the social partners in order to ensure support to the medium-term program.** The key components of the truce, which is to last for three years, are a commitment to no wage increases on part of the trade unions, and an undertaking by the government to make efforts, in consultation with the private sector operators, to moderate the price of key necessities, in particular through tax reductions.<sup>8</sup> To implement this commitment, at end-December 2003, in the context of the 2004 budget law, the government reduced the VAT rate from 18 percent to 10 percent on a number of basic commodities, including poultry, sugar, imported vegetable oil, and canned tomato. To ensure revenue neutrality, the VAT rate on a number of luxury goods (such as liquors, cigarettes, cheeses, chocolate, air conditioning equipment, and mobile phone services) was raised from 18 percent to 25 percent. While in early April 2004 the government widened the list of consumer goods subject to the price surveillance regime, it rescinded the measures few weeks later, following discussions with Fund staff and concerns expressed by

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<sup>6</sup> In late 2002, the SNBG commissioned a study from the consulting firm KPMG on the role of the company in the forestry sector. However, the report, which came out in December 2003, did not address the key issue of streamlining the operations of the SNBG and thus did not provide an adequate basis for a restructuring plan. The World Bank has agreed to the terms of reference of a new study. The selection of the consultant to carry it out is scheduled to be completed by end-May, and the study is to be completed by November 2004.

<sup>7</sup> Mineral water, vegetable oil, soap, poultry, and paper products were removed from the list. By end-2003 the only remaining products under price surveillance were medicines, school books, bread, and petroleum products.

<sup>8</sup> Other undertakings are to improve the functioning of the medical insurance system, to restructure the national security agency, and to regularize the administrative position of civil servants.

**Box 2. Structural Reform Implementation Since October 2003  
(In Addition to Measures Constituting Structural Benchmarks Under the SMP)**

*Since mid-2002, the government has made important progress in the implementation of its structural reform agenda.<sup>1</sup> Measures adopted have centered on governance and public expenditure management, in order to correct for past weaknesses and place the adjustment effort on a sustained basis. Lately, the authorities have continued implementing their reform agenda, and measures have been adopted that have gone beyond those envisaged under the original medium-term program.*

**Public finance**

- Implementation on April 1, 2004 of measures curtailing the wage bill.
- Initiation of audit of Road Fund arrears and investment related to independence day celebration.
- Submission of list of forestry concessions by the Ministry of Forestry to the Tax Directorate for tax assessment purposes.
- Collection of tax arrears of the manganese company, COMILOG and other oil companies, following tax audits conducted in 2002-03.

**Public enterprises**

- Negotiations to sell the rubber plantation company, HEVEGAB, and the palm oil company, AGROGABON concluded in early April 2004.
- Two ports placed under private management concession, effective April 1, 2004.
- Negotiations with prequalified buyers of Gabon TELECOM under way.
- Implementation of a plan to reduce the cost structure of the timber marketing board, SNBG, approved by its board of directors on December 19, 2003.
- Placement of three National Social Security Agency's (CNSS) hospitals under private management in early 2004.

**Governance and others**

- Establishment by the Commission Against Illicit Enrichment of two operational sub-commissions on prevention and education, and on investigation, in conformity with LEG's recommendations.
- Adoption by the government in early April 2004 of the wealth declaration for public officials.
- Preparation of Letter of Development Policy for the Forestry Sector under way, in consultation with the World Bank.
- Gabon joined MIGA in March 2003, and is now considering a number of projects for which MIGA will provide guarantees.

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<sup>1</sup> See Box 3 in Country Report 04/28 for a list of measures implemented throughout 2002–03.

the private sector. In the context of the finalization of the new program, the government has reiterated its conviction that price moderation can be achieved only through adequate competition in supply and distribution channels, and has expressed its commitment not to make recourse in the future to price control measures, or to intensify existing controls.

### III. POLICY DISCUSSIONS ON THE 2004–05 PROGRAM

14. **In addition to reviewing the progress under the SMP, discussions focused on how the medium-term program of the authorities could be strengthened, with a view to addressing in a comprehensive fashion the difficult challenges confronting the Gabonese economy.** Specifically, the authorities concurred that it was essential to ensure sustained fiscal adjustment and remove impediments to growth, in order to place the debt on a sustainable path. A key priority is to secure adequate room for a well-designed expenditure program for infrastructure and the social sectors that is consistent with the priorities laid out in the poverty reduction strategy paper (PRSP) under preparation, in order to combat poverty. This requires strengthened public expenditure management, including improvements in budgetary preparation and execution.

15. **Accordingly, the program that the authorities have prepared in consultation with Fund staff centers on three priorities:** (i) the correction of the weaknesses that came to the fore in 2003 in public finances, so as to sustain fiscal adjustment and contribute to the reduction of the debt burden; (ii) the strengthening of public expenditure management; and (iii) the accelerated implementation of comprehensive structural reforms, so as to further improve the investment climate, promote non-oil growth, and secure poverty reduction.

16. **The fiscal adjustment**, which will rely mainly on the containment of current expenditures, will lead to a reduction of the non-oil primary deficit, so as to maintain a significant overall budgetary surplus despite the decline in oil revenue, and help to further reduce the public debt-to-GDP ratio.

17. **The structural measures**, directed at fostering non-oil growth, will center on further progress in the privatization process, the implementation of reforms in the forestry sector, and the strengthening of key infrastructure, in the context of a well-targeted public investment program for 2004-06. The program will also include measures to further solidify the banking system, and to strengthen the financial system so as to support the development of small and medium-sized enterprises, agriculture, and residential construction. The World Bank will play an important role in identifying barriers to private sector development, with the Foreign Investment Advisory Service of the IFC conducting a series of diagnostic studies, starting in the coming weeks.

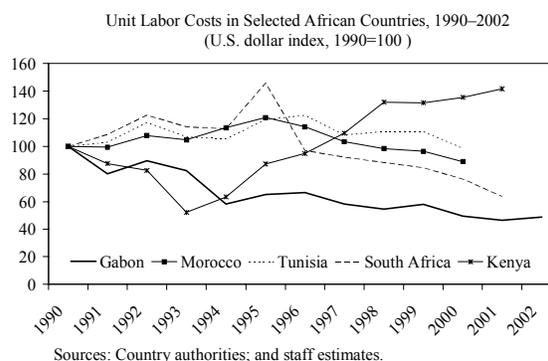
18. **When finalized, a well-focused PRSP**, with detailed master plans for the priority social sectors, including quantification of objectives and of costs, will represent an essential instrument for prioritizing the public expenditure effort in a coherent medium-term framework, and ensuring accountability and close monitoring of progress in improving social indicators and achieving the Millennium Development Goals.

19. **With the reforms under way and the improved outlook on foreign direct investment, the staff and the authorities concur that a 3 percent growth rate of non-oil GDP is achievable in 2004, and that this rate could rise to 3.5 percent in 2005.** The sectors in which growth is expected to accelerate are agricultural processing (palm oil, rubber, fruit and vegetables), telecommunication services, and timber processing. Because of the expected decline in oil production and oil prices, the overall nominal GDP is projected to fall in 2004-05 by a cumulative 6.2 percent. Prudent fiscal and monetary policies, and a stable exchange rate, are expected to contain inflation. As a result of the increase in foreign direct investment related to privatization, the intensification of oil recovery activities, and the improved business climate, gross private investment is projected to increase by 0.7 percentage point of GDP in 2004 to reach 21 percent of GDP in 2004-05.

Key Macroeconomic Indicators, 2003-05 (In percentage change, unless otherwise indicated)			
	2003 Prel. Est.	2004 Prog.	2005
Real GDP growth	2.8	2.0	-0.7
Oil	7.6	-0.6	-11.7
Non-oil	1.0	3.0	3.5
CPI (annual average)	2.1	2.0	2.0
Current account balance In percent of GDP	10.5	5.8	1.5
Non-oil budgetary primary deficit In percent of non-oil GDP	-8.2	-7.5	-5.7

Sources: Gabonese authorities; and staff estimates and projections.

20. There was also agreement that for non-oil GDP to rebound, it is essential that the overall competitiveness of the economy continues to improve. Given the fixed exchange rate system, sustained efforts must be made to cut costs and inefficiencies hampering exports, such as high inland transportation and port services fares, and processing delays at customs. Also, the containment of total public sector wage bill is essential to increase the attractiveness of private sector employment. The chart above shows that since 1990 unit labor costs in manufacturing in Gabon have declined more than in other African countries.<sup>9</sup>



21. **Because of the projected decline in oil production of 14 percent in 2004-05, the overall external current account surplus, including grants, is projected to decline sharply to 1.5 percent of GDP by 2005; the overall balance of payments deficit would**

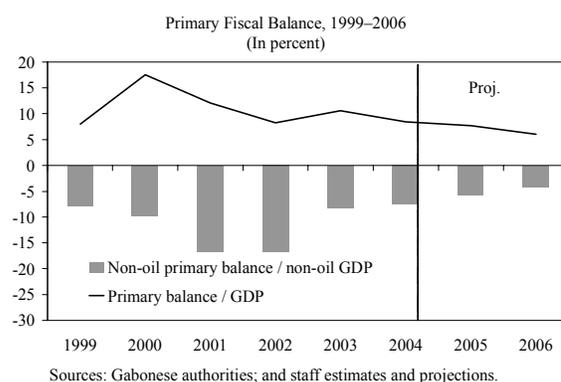
<sup>9</sup> As a caveat, it should be noted that as Gabon's oil boom began in the 1970s, unit labor costs in 1990 were higher than in other African countries.

widen to 3.5 percent in 2005 (Table 6). The financing gaps in 2004–05 are expected to be covered by debt rescheduling and use of Fund resources, as discussed in detail below.

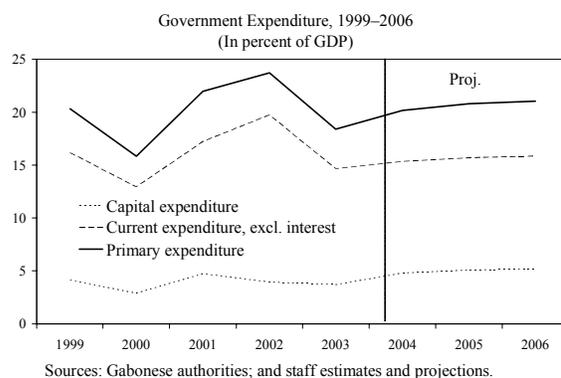
22. **The combination of sustained fiscal adjustment and a pickup in growth would keep the external debt-to-GDP ratio below the peak of 63 percent reached at end-2001 (see Appendix IV).** After having declined to 55.9 percent at end-2003, the ratio is projected to increase to 61.6 percent at end-2006 but to decline steadily thereafter, falling below 50 percent by 2012, provided that non-oil growth is sustained at a rate of 3.5–4 percent per year. At the same time, the public debt-to-GDP ratio will continue to decline from its end-2002 peak, as the overall primary budgetary surplus is used in priority to repay the domestic debt, which carries a relatively short maturity.

### A. Fiscal Policy and Reforms

23. **Because of the need to reduce the debt burden in the face of declining oil revenue, and to reorient resources to the non-oil tradables sector, public finance consolidation must be sustained over the medium term. Accordingly, the program for 2004–05 aims at reducing further the non-oil primary deficit as a share of non-oil GDP by 2.5 percentage points through the curtailment of the current primary expenditures, and in particular of the wage bill, and the strengthening of non-oil revenue (see text table below).** The cut in the non-oil deficit will contain the decline in the overall fiscal surplus resulting from the projected fall in oil revenue of 3.7 percentage points of GDP over 2004-05, and thus limit the financing gap to what can be covered by debt rescheduling by the Paris Club and London Club creditors and the use of Fund resources.



24. **On the expenditure side, a number of measures have entered into effect on April 1, 2004 to contain the wage bill by 0.2 percentage points of GDP below the trend (MEFP, para. 22).** The measures consist of a further reduction of senior staff in ministries, streamlining of allowances for managerial responsibilities and for special risks, cuts in severance pay, and strict observance of the retirement age. The advancement and promotion system will be revamped, with more reliance placed on merit and lower overall cost following the adoption of the new civil service statutes, which parliament is expected to approve before end-June (MEFP, para. 32). Expenditure on goods and services has been kept stable in the 2004 budget, while transfers to the civil service pension system



Gabon: Indicators of Fiscal Adjustment, 2002–06

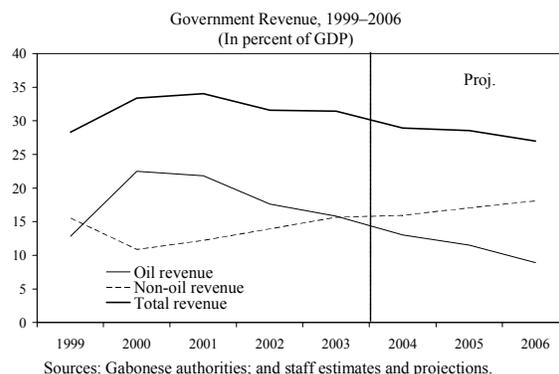
	2002	2003	2004	2005	2006
		Est.	Projections		
(In percent of GDP)					
Revenue	31.5	29.8	30.2	29.3	27.9
<i>Of which:</i> non-oil revenue	13.9	13.6	15.2	16.8	17.8
Primary expenditure	23.7	18.4	20.2	20.8	21.1
<i>Of which:</i> primary current expenditure	15.5	13.4	13.9	14.2	14.4
<i>Of which:</i> wage bill	6.4	6.5	6.7	6.8	6.8
net lending and restructuring of public enterprises	2.5	0.0	0.0	0.0	0.0
capital expenditure	4.0	3.7	4.8	5.1	5.2
Primary balance, including grants	7.9	11.4	10.3	8.6	7.0
External debt service paid, including IMF	4.2	6.5	6.1	5.2	5.0
Public debt	76.1	67.6	67.9	67.3	66.1
<i>Of which:</i> External debt, including IMF	62.7	55.9	58.6	60.7	61.6
(In percent of non-oil GDP)					
Non-oil revenue	23.9	23.6	24.0	24.6	24.5
Primary expenditure	40.8	31.8	31.9	30.5	28.9
<i>Of which:</i> primary current expenditure	26.7	23.2	22.0	20.8	19.7
<i>Of which:</i> wage bill	11.0	11.3	10.6	9.9	9.3
Non-oil primary balance, including grants	-16.8	-8.2	-7.5	-5.7	-4.2

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

have been increased, to correct for past underbudgeting. The authorities intend to carry out a study to rationalize the generous system of scholarships for higher education, with a view to achieving savings in the 2005 budget, and to that end will seek donor assistance. The domestically financed capital budget has been increased to provide more resources for priority road construction, health, and sanitation, while more foreign resources are expected to be mobilized from multilateral lending agencies.

25. **Tax administration will be further strengthened, following the recommendations of a recent Fiscal Affairs Department (FAD) technical assistance mission** (MEFP, para.19). Key measures include the establishment of a large taxpayers unit during 2004, more audits of taxpayers, elimination of exemptions outside the mining, forestry, and investment codes, strict implementation of the forestry taxes introduced in 2003 (area tax and stumpage fee), and a more accurate valuation of logs and manganese for export tax purposes. The

export tax on logs was cut from 20 percent in 2003 to 17 percent in 2004, in conjunction with the introduction of the stumpage fee. Improved collection of the area tax and the stumpage fee should allow a further reduction of the export tax in 2005. The tax base of local authorities will be strengthened, as the implementation of an action program to update the land registries in the main municipalities will lead to the issuance of updated real estate tax assessments before end-2004.<sup>10</sup>



26. **Since the impact of a number of measures on the revenue and expenditure side taken in 2004 will be felt fully in 2005, the program's fiscal adjustment is larger in 2005.** On the revenue side, it is projected that in 2005 non-oil revenue will rise by an additional 0.6 percentage points of non-oil GDP. This is predicated on (i) the entry into operation of the large taxpayers unit, which should strengthen assessment and collection of company tax and the VAT; and (ii) more efficiency at custom, as the computerized customs operations system SYNDARA becomes fully operational in 2004. On the expenditure side, primary expenditure are projected to rise by only 1 percent between 2004 and 2005, on account of a rise in capital expenditure, and to decline as a share of non-oil GDP. Current primary expenditure are programmed to remain stable in 2005. The wage bill would decline modestly, reflecting the full year impact of the measures implemented on April 1, 2004, and the expected impact of the reform in the wage structure and the promotion system; the related implementation decrees are scheduled to be adopted before end-2004, following the adoption of the new civil service statutes, now being examined by parliament (MEFP, para. 32). Transfers are also expected to decline, on account of savings in the scholarship program and sovereignty expenditures.

27. **The program envisages a further reduction of the float at the treasury, the clearance of remaining arrears on debt agreements with suppliers, and repayment of wage arrears on the basis of the completion of a comprehensive inventory before end-September**

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<sup>10</sup> To reduce the tax burden on basic necessities, as called for under the social truce agreement signed with the trade unions in September 2003, at end-2003 the government widened the number of goods subject to the reduced VAT rate of 10 percent, and introduced an augmented rate of 25 percent for a number of luxury goods, to ensure revenue neutrality. While the staff regretted these measures, and urged for an early reversal, in order to preserve the simplicity and efficiency of the VAT regime, the authorities explained that these measures could not be rolled back under the new program, as they were agreed with the trade unions.

2004 (Box 3). The government deposits at the central bank will increase, through the placement in the Fund for Future Generation (FFG) of 10 percent of the oil revenue.

28. **Finances of local authorities finances will be monitored closely**, following the dwindling of their reserves at the treasury in 2003; an interministerial committee is scheduled to prepare detailed proposals before end-2004 on how to strengthen their finances through improved controls on expenditures and reinforcement of the revenue base (MEFP, para. 31).

29. **The two social security administrations** (Caisse Nationale de Sécurité Sociale (CNSS), in charge of private sector employees and of nonpermanent government employees, and the Caisse Nationale de Garantie Sociale (CNGS) covering mainly the government contractual staff)<sup>11</sup> are to streamline administrative costs; the government old-age contributions to the CNGS will be calculated on a larger base, and a performance contract with the government will be established before end-September 2004. With regard to the CNSS, the actuarial study conducted by the International Labor Office will be completed by end-2004, and will provide the basis for a revision of the social security code to ensure the long-term sustainability of the system. The three CNSS hospitals have been placed under private management, with a view to increasing efficiency and performance (MEFP, para. 30).

30. **Weaknesses in budgetary management, especially concerning investment expenditure, are to be corrected in 2004-05**, ensuring that investment budget execution starts at the beginning of the year, that the preparation of the current and capital budgets is better coordinated, and that medium-term expenditure frameworks are prepared for key sectors, starting in the 2005 budget (MEFP, paras. 24 and 25). Also, actions will be undertaken to shorten delays in the preparation of the monthly treasury balances, and all special funds will be integrated in the 2005 budget (MEFP, para. 27).

## **B. Monetary Policy and Financial Sector Reforms**

31. **Monetary policy will continue to be conducted prudently by the regional central bank, in a manner consistent with the fixed exchange rate regime.** Under the program, broad money is projected to grow by about 5.3 percent on average during 2004–05, driven by an increase in net foreign assets and an expansion of credit to the private sector, in line with the increased activity of the non-oil sector, including forestry. With the projected fiscal consolidation, the government's position vis-à-vis the banking system will improve substantially, in particular reflecting increasing deposits in the FFG. Since the commercial banks are very liquid, there is room to expand credit to creditworthy projects and borrowers.

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<sup>11</sup> The permanent government staff is covered by a pension scheme directly administered by the treasury.

### Box 3. Domestic and External Arrears

By-end 2002 Gabon had a substantial stock of domestic and external arrears, equivalent to 15.6 percent of GDP. The domestic arrears comprised a large float at the treasury (equivalent to 5 percent of GDP), some arrears on domestic debt obligations, mainly owed to suppliers, and wage arrears to civil servants, resulting from the non-payment of wage adjustments for promotions and merit increases. External arrears included both nonreschedulable arrears to multilateral organizations and Paris Club creditors (post-cutoff-date debt and debt obligations resulting from the 2000 Paris Club agreement), and reschedulable arrears obligations on pre-2000 Paris Club agreements, on non-previously rescheduled debt, and to London Club creditors.

Under the 2003 program the government reduced considerably the float at the treasury, and cleared all nonreschedulable external debt. The 2004-05 program envisages a further reduction of the float and of wage arrears, and the elimination of domestic arrears to suppliers. The assessment of the stock of wage arrears will be completed by end-September 2004. The remaining external arrears are expected to be rescheduled under a new Paris Club agreement that would be finalized after the approval of the proposed Stand-By Arrangement with the Fund.

Gabon: Stock of Domestic and External Payments Arrears and Projections for 2004-06  
(In billions of CFA francs, unless otherwise specified; end-period data)

	2002	2003 Est.	2004	2005	2006
			Projections		
Domestic arrears	258.6	179.3	104.0	52.5	36.3
Conventional debt agreements with suppliers	25.4	21.2	3.0	0.0	0.0
Float at the treasury	156.8	91.7	59.8	36.3	36.3
Other	76.4	66.4	41.2	16.2	0.0
Compensation for political violence 1/	15.4	10.2	5.0	0.0	0.0
Regularization of civil servants' salaries 2/	61.0	56.2	36.2	16.2	0.0
External arrears	278.1	325.9	0.0	0.0	0.0
Reschedulable debt 3/	184.1	321.1	0.0	0.0	0.0
Nonreschedulable debt 4/	94.0	4.8	0.0	0.0	0.0
Total stock of arrears	536.7	505.3	104.0	52.5	36.3
In percent of GDP	15.6	14.4	3.1	1.6	1.1

1/ Debt resulting from court rulings on compensation for property destroyed during the 1990 and 1993 riots.

2/ Represents the estimated stock of wage arrears arising from nonpayment of merit and promotion increases before 2002.

3/ Reschedulable obligations toward Paris Club and London Club creditors.

4/ At end 2003, it includes CFAF 4.8 billions of obligations due on nonreschedulable debt paid in early January 2004.

32. **The authorities are committed to further strengthening the financial sector, in order to support economic diversification.** Following the recommendations of the Financial Sector Assessment Program (FSAP), the authorities are addressing key weaknesses of the financial sector.<sup>12</sup> COBAC has increased the number of inspectors in recent months, and inspections in the period ahead will focus more on risk diversification.

33. **Microfinance institutions, which are presently weak in Gabon, could play a role in boosting non-oil activity** (MEFP, para. 35). The adoption of a legal framework for the operations of these institutions in 2002 has clarified the institutional setup. In this framework, a public institution, the Development and Expansion Fund (FODEX), has started playing a key role over the last 18 months in providing financial and technical assistance in order to expand the existing microfinance networks. Also, the World Bank is preparing a project for the whole CEMAC region aimed at strengthening microfinance institutions. The mobilization of savings is to be boosted by the restructuring of the postal checking and saving systems, scheduled to start in 2004, and by the entry into operation of the regional stock exchange (MEFP, paras. 37 and 38). The authorities also intend to revamp, with external technical assistance, residential housing financing, which is particularly weak at present, hampering the potential expansion of construction activity; to that end, they intend to improve the procedures for land registration and issuance of property titles.

### **C. External Sector Policies and Prospects, Debt Sustainability, and Capacity to Repay the Fund**

34. **The policies under the program are expected to contribute to improving the medium-term prospects of the non-oil balance of payments, which, over time, should more than offset the impact of the decline in oil production.** However, as indicated above, the large financing gaps envisaged for 2004–05 will require debt rescheduling on current maturities and arrears, and the use of Fund resources (Tables 6 and 9). Financing gaps are also projected for the remainder of the decade, and the first part of the next one, as the expected steady growth on non-oil exports, of about 6 percent per year in value, is not enough to offset the projected decline in oil production to about 7 million tons by 2012, while debt service remains very high (Appendix IV, Table 3). The high debt service similarly affects public finances, leading to gaps that are likely to require debt rescheduling up to the middle of the next decade, despite rising non-oil budgetary revenue. To fill the 2004–05 financing gaps, rescheduling will be requested from the Paris Club for the end-2003 stock of reschedulable arrears (CFAF 320 billion, equivalent to US\$605 million), and for the 2004–05 current annual maturities on reschedulable debt (about CFAF 160 billion each year,

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<sup>12</sup> Particularly, the lack of bank portfolio diversification, the large exposure to government suppliers, public enterprises and forestry companies, and the underdevelopment of nonbank financial institutions.

equivalent to US\$300 million) (Table 10).<sup>13</sup> It is assumed that non-Paris Club bilateral and London Club creditors will provide comparable treatment.

35. **Gross reserves of the central bank attributable to Gabon are expected to increase steadily in the period 2004–05 and to reach the equivalent of four months of imports, up from two months in 2003 (Tables 6 and 11).** This would strengthen the total external reserves of the regional central bank, which are essential to support the pegged exchange rate. However, as indicated below, the key vulnerability of the country is constituted by the risk that the debt ratio could become unsustainable if the non-oil sector does not grow at an adequate rate.

36. **The baseline scenario used in the debt sustainability analysis (DSA) indicates that, with the budgetary primary surplus used mainly to retire domestic debt over the period 2004–06, the public debt-to-GDP ratio would decline steadily after peaking at 67.9 percent of GDP at end-2004** (Appendix IV, Table 2). The path projected for the external debt-to-GDP ratio is somewhat different, as this would still increase modestly up to 2006, peaking that year at 61.6 percent (Table 10), and would decline steadily thereafter, assuming that non-oil GDP grows at an average annual rate of 3.9 percent in the period 2006–10 (Appendix IV, Table 1).<sup>14</sup> The external debt-service ratios, both in terms of exports and government revenue, will rise until 2013 because of the decline in oil production, but are projected to decline thereafter as the weight of the rising non-oil sector in the overall economy increases (Appendix IV, Table 3).

37. **A number of sensitivity analyses performed for the DSA exercise indicate that there are substantial risks to achieving a sustainable debt path (Appendix IV).** External debt becomes unsustainable when the relevant variables are set during 2004–08 at their 1992–2002 average, which would entail a more pessimistic scenario than the baseline. Other stress testing, based on past current account deficits and past exchange rate depreciations,

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<sup>13</sup> The needed rescheduling will have to cover debt service (arrears and current maturities) falling due during the program period on previously rescheduled debt, excluding that resulting from the last Paris Club and on non-previously rescheduled pre-cutoff-date debt. Thus, the amount eligible for rescheduling in 2004 is around CFAF 471.5 billion, of which CFAF 444 billion from Paris Club creditors, CFAF 9 billion from other bilateral creditors, and CFAF 18.5 billion from London Club creditors. The debt service for 2004-06 includes provisions for moratorium and late interest payments.

<sup>14</sup> The external DSA was performed using public external debt only. Although precise data on private external debt are not available, balance of payments data indicate that such debt could amount to about the equivalent of 10 percent of GDP. It is mostly owed by the subsidiaries of international oil companies operating in Gabon.

would result in the debt ratios peaking at significant higher levels in 2006–07, but still exhibiting a declining path thereafter. However, a key stress test, which assumes that the average annual non-oil GDP growth rate will be lower by 2 percentage points, would result in a continuous rise in the external debt-to-GDP ratio, which would become unsustainable. This underscores the critical importance of measures to boost non-oil growth for the success of the authorities' program.

38. **Five equal disbursements under the Stand-By Arrangement are contemplated, three of which are expected to be effected in 2004 (Table 12).** The access takes into account the financing needs and the strength of the proposed program. The Fund's exposure to Gabon after the purchases under the proposed Stand-By Arrangement will remain limited relative to Gabon's capacity to generate resources (Tables 13 and 14). Given the country's track record of servicing its obligations to the Fund in a timely manner, the prospects that its fiscal and balance of payments positions will improve when repayments to the Fund start, and the constitution of some reserves out of its oil resources, it is expected that Gabon will meet its obligations to the Fund. Charges by, and repurchases to the Fund would represent on average in 2006–09 about 2 percent of government revenue, and less than 2 percent of exports of goods and nonfactor services.

#### **D. Other Structural Reforms and Governance**

39. **The government is committed to trade liberalization.** Accordingly, it will urge the CEMAC to reach a decision to reduce the maximum rate under the common external tariff (CET) to 20 percent;<sup>15</sup> the government is committed to eliminating remaining surcharges by end-2004 (MEFP, para. 39).<sup>16</sup> The quantitative restrictions on sugar imports will be eliminated by end-2004, in the context of the adoption of similar measures in other CEMAC countries. Assessing progress in this area will be a focus of the first review of the program. However, in view of the need to provide some degree of temporary protection for sugar production in the CEMAC area in response to the subsidies provided in the industrial countries, the government will ask that the CEMAC submit a request to the World Trade Organization (WTO) to authorize the temporary protection of the sugar sector at the regional level through transitory import surcharges.

40. **To stimulate non-oil growth the program includes important reforms in the forestry sector, an acceleration of the privatization process, the restructuring of public enterprises not yet ripe for privatization such as the state airline company (Air Gabon),**

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<sup>15</sup> Discussions have been under way within the CEMAC for some time to merge the 30 percent and the 20 percent tariff rates into a single maximum tariff of 20 percent.

<sup>16</sup> The surcharges on lubricants and mineral water were eliminated in late December 2003; the only import surcharges still in place, on poultry products and cigarettes, will be eliminated by end-December 2004 (structural benchmark).

**and actions to improve the investment climate, including strengthening the judicial sector, and revamping the land registry (MEFP, paras. 42-51).**

41. **A comprehensive reform of the forestry sector is being implemented with World Bank assistance (Box 4 and MEFP, para 43).** The main objectives of the reform is to increase the contribution of the sector to value added, while reinforcing the adherence to the sustainable development principles, ensuring transparency in the allocation of forestry permits and a better pricing of scarce resource. An in-depth reform of the SNBG is also a key element of the program. A letter of development policy for the forestry sector, prepared in consultation with the World Bank, is close to being finalized, and is scheduled to adopted by the council of ministers in mid-May.

42. **The privatization of agribusinesses, such as HEVEGAB (rubber plantations), and AGROGABON (palm oil and soap) will be accompanied by additional investments, so as to better tap the potential of these sectors, both for export and to meet domestic demand.** The privatization of the telecommunications sector, by improving a key infrastructure, could enhance the role of Gabon as a service center for the region. To that end, it is important that the regulatory framework for the telecommunications sector remains appropriately attractive. The strengthening of the management of Air Gabon, under way since early 2003, is already giving encouraging results in terms of increasing revenue and cutting in operating losses; however, progress will have to be monitored closely, making use of the company's recently revamped financial reporting system.

43. **To improve the judicial system,** the authorities are making efforts centered on rehabilitating courthouses, increasing their operating efficiency, and improving judicial training (MEFP, para 49). To step up registration of real estate property, the land registrar (cadastre) is to be reorganized in 2004. The official adherence to MIGA in March 2003 should also contribute to increase the attractiveness of Gabon to foreign investors.

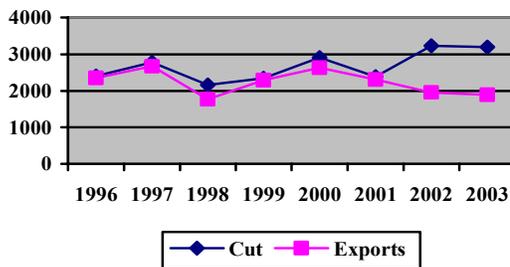
44. **Particular attention is been given to improving key infrastructure (ports and roads)** with the assistance of donors, and with private sector participation, as far as the ports are concerned. The two main ports have been placed under private concession, effective April 1, 2004; this should lead to significant gains in efficiency, which are crucial to reduce costs of non-oil export-oriented businesses.

45. **Broad-based efforts to strengthen governance are critical for sustaining growth over the medium term. The National Commission Against Illicit Enrichment has already begun its prevention work by organizing consciousness-raising workshops with financial administrations and other spending agencies (MEFP, para. 52).** A first activity report will be submitted by end-December 2004 (structural benchmark). The Directorate-General of Public Procurement, established in 2003, has begun the audit of the Road Maintenance Fund operations, and will audit the execution of the public works carried out under the capital budget relating to the Independence Day celebrations. In addition, it is responsible for auditing the services delivered under government contracts for amounts in excess of CFAF 30 million. The government plans to adhere to the Extractive Industries

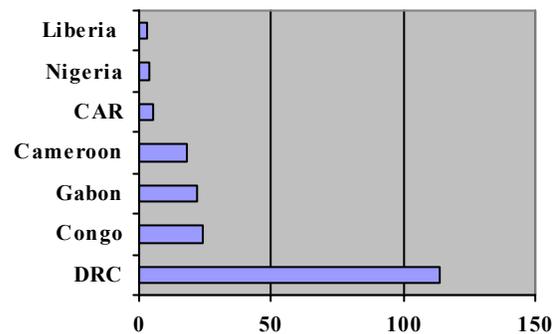
#### Box 4. Forestry Sector Reforms Under Way

*Being an important exporter of tropical timber, having the largest forest area per capita in Africa, and with 85 percent of its land area covered by forests, Gabon faces the challenge of diversifying its economy and managing appropriately its resources. Most of the logging is devoted to exports; however, the local processing increased sharply from 7 percent in 1995 to about 25 percent in 2003. The government, with the assistance of the World Bank and the donor community, is implementing a comprehensive reform agenda to place the sector on a sustainable path. The authorities are committed to implementing the following reforms in the near term:*

**Cut and Export of Logs 1997-2003**  
(thousand of cubic meters)



**Forest Area (million of hectares)**



#### **Sustainable management**

- An action plan will be adopted to place the whole forestry domain (14 million hectares, of which 10 million for timber production by professional operators, and the rest for protected areas including national parks), under sustainable management plans by end-2005.
- Small concession permits will be regrouped and appropriate financing mobilized to allow smaller holders to establish sustainable management plans.
- An auction system will be established for granting new concession permits in the forestry domain, and no new concession will be awarded pending the finalization of this system.
- Regarding the management of forestry areas allocated for different usage (presently 8 million hectares of rural domain, including for community forests, agriculture, livestock, and rural development), regulations will be tightened in order to ensure sustainable exploitation, and cutting permits will be granted on the basis of auctions.
- A concession map will be finalized by end-2004, comprising a list of all permit holders.

#### **Taxation**

- Tax payments by concession holders will be strictly followed up, and non compliant concessions will be terminated.
- Tax incentives are associated with the preparation of sustainable management plans.

#### **Streamlining of the SNBG**

- Tender has been launched for a study, to start in June, for restructuring the SNBG, which will examine its appropriate role in the export and marketing processes.
- A plan to reduce personnel was adopted in December, with the aim of cutting about 15 percent of staff positions in 2003-04. This is accompanied by cuts in other operating costs and has allowed the SNBG's unit fee per cubic meter exported to be reduced by about 5 percent since early 2004. A progress report on the implementation of this plan was prepared at end-April 2004.

Transparency Initiative. Donors, including the UK Department for International Development, are examining the procedures for Gabon's adherence to the initiative.

### **E. PRSP Preparation Process**

46. The government intends to complete the preparation of a final PRSP in early 2005, with the assistance of donors, and the World Bank and International Monetary Fund plan to conduct a joint assessment of this paper (MEFP, para. 53). The paper will be based on an updated analysis of poverty, using the results of a participatory survey on the perception of poverty (EPP) conducted in 2003, the household expenditure survey of 2003, and the General Population and Housing Census (RGPH) recently completed, as well as those from the national quantitative survey on poverty, to be carried out from March to July 2004 with donor support. The findings of the quantitative survey on poverty will be used to update the social indicators, which will be revised annually through additional surveys. Donors are also helping the government to conduct a participatory survey on poverty, to be completed by end-September 2004. Key components of the PRSP will be the establishment of master plans for the sectors most relevant to poverty reduction (education, health, and housing), in view of the weak social indicators (Table 15); these will include a quantification of the costs of the related spending programs. The authorities will seek to ensure the compatibility of these costs with the medium-term budgetary framework; the master plans will be a key input for the 2005 budget law, and for the public investment program and medium-term expenditure framework covering the 2005–07 period.

## **IV. RISKS TO THE PROGRAM AND PROGRAM MONITORING**

### **A. Risks to the Program**

47. **The program is subject to major risks.** First, despite the broadly satisfactory performance in 2003, and the significant measures adopted in 2002-03 to strengthening public finance management and improving governance, the track record in sustaining fiscal adjustment over a protracted period of time is weak, as evidenced by performance under past programs. There has been a tendency to relax the fiscal stance close to elections, so that with presidential elections scheduled for end-2005 risks to the fiscal program are enhanced; looming elections could also weaken the resolve to carry out structural reforms. Second, the program's success depends crucially on an adequate non-oil sector growth. While recent progress in privatization has been encouraging, and is contributing to an inflow of foreign investment, for growth to be sustained it is necessary that it encompasses a whole range of sectors in which investment is still weak. Finally, as debt sustainability hinges on continued fiscal adjustment and satisfactory non-oil sector growth, any risks in these areas lead to uncertainties on the likely profile of the debt-GDP ratio and on its sustainability. Specifically, if the growth rate of the non-oil sector is over two percentage points less than in the baseline scenario, the DSA shows that the debt would become unsustainable.

48. To address the risks to the fiscal program, the program includes front-loaded structural prior actions, quarterly reviews, and quarterly targets, to allow early detection of

slippages, and prompt adoption of needed actions. In the structural area, the program features a considerable front loading of measures regarding privatizations, as these might prove difficult in the run-up to elections.

## **B. Fund Conditionality**

49. **Macroeconomic performance under the proposed arrangement will be evaluated on the basis of quarterly quantitative performance criteria.** These include (i) floors on the primary fiscal surplus, excluding grants and foreign financed investment; (ii) ceilings on the net claims of the banking system on the government; (iii) ceilings on the stock of arrears on domestic debt; and (iv) ceilings on external debt contracted or guaranteed by the government. A continuous performance criterion applies to the nonaccumulation of external payments arrears. The proposed performance criteria for end-June, end-September, and end-December 2004 are shown in Table 1 of the MEFP (Appendix I, Annex I), alongside indicative targets for non-oil government revenue (floors), the government wage bill (ceilings), noninterest domestic government expenditure (ceilings), the reduction of the float at the treasury (floors), and current expenditure for education, health, and social assistance (floors). Definitions, adjustment mechanisms, and reporting requirements are specified in the technical memorandum of understandings (TMU) (Appendix I, Annex II)

50. **Structural conditionality, including prior actions, (Table 2 of the MEFP) focuses on areas that are critical for achieving the program objectives, including tax reforms, budgetary reforms, civil service reforms, governance, performance contracts with the CNGS social security agency, the restructuring and privatization of public enterprises, and trade reform.** The staff will inform the Board on the fulfillment of the prior actions in its statement.

51. **Four quarterly reviews are scheduled under the arrangement (Table 12).**

## **C. Collaboration with the World Bank**

52. The World Bank is finalizing a Forestry and Environment Sector Loan, in support of key reforms in the forestry area. The Privatization Program Support Project, which will close at end-June 2004, is providing critical support to the privatization process. The World Bank is now preparing a country assistance strategy which is likely to be focused on improving public expenditure management, diversification, and private sector development. To that end, it will carry out in the coming months a diagnostic study on the barriers to investments, to be followed by more in-depth studies on the legal and regulatory framework, taxation and the financial system. The implementation of the ensuing recommendations will be a key input for a possible Private Sector Development/Diversification Project that the World Bank plans to start preparing in 2005. The World Bank is also providing assistance in the preparation of the PRSP and will conduct a public expenditure review in the second half of 2004, that will be a main input for the preparation of medium-term expenditure frameworks for key sectors, the development of which is a core element of the PRSP.

## V. STAFF APPRAISAL

53. **Gabon's past history of program implementation is poor, but important policy actions taken since mid-2002 and the satisfactory track record under the September-December 2003 staff-monitored program demonstrate the authorities' renewed commitment to sustained adjustment.** This is, however, only a first step on the path toward an adequate record of consistent policy implementation, which will be critical to any long-term solution of Gabon's debt sustainability issues.

54. **The proposed Stand-By Arrangement-supported program contains prudent macroeconomic policies designed to continue laying the foundations of sustainability.** Continued fiscal adjustment is essential to free resources for the tradables and social spending, reduce the financing gaps, and place the debt burden on a sustainable path. It is therefore essential that the measures adopted in early 2004 to contain the wage bill be implemented with rigor, and that the budgetary limits on other current expenditure be firmly respected. It is also important that the efficiency of public investment be improved rapidly by strengthening the process for preparing and executing the capital budget, and by preparing medium-term expenditure frameworks for the key sectors, consistent with the priorities outlined in the PRSP. The authorities are appropriately committed to continued improvements in tax administration that are necessary to boosting non-oil revenue. It is encouraging that they have taken measures to revamp the collection of property taxes, which are essential to strengthening the finances of local authorities, presently very weak. Additional measures under preparation to shore up the local authorities' finances will need to be carefully drawn up and implemented with determination. Similarly, the important reforms of the social security agencies under preparation will have to be finalized speedily, in order to strengthen their long-term viability. Concerning the recent increase in the number of VAT rates and the reduction of the rate on a number of consumer products, the staff would advise the authorities to reverse these measures as soon as circumstances permit, in order to preserve the simplicity and efficiency of the VAT regime.

55. **In order to improve the investment climate and promote growth in the economy's non-oil sector, the program appropriately focuses on strengthening the structural reforms under way in the areas of privatization, the forestry sector, the financial system, and the regulatory environment.** These are essential in order to fully mobilize the country's growth potential and attract new investment. It is encouraging that new investors in the crucial telecommunications and agribusiness sectors are committed to expanding the scope of their activities, thus contributing to needed growth, and that the management of the state airline company is improving. However, the authorities will have to remain vigilant to ensure that the regulatory environment for the telecommunications sector remains attractive, and that the airline company's progress is carefully monitored. It is also essential that the authorities maintain a free domestic trade environment, with no intensification of price controls, while seeking to preserve the social truce agreement with the trade unions that calls for wage moderation over the medium-term.

56. **In the crucial forestry sector, it is important that the reforms under way be carried out with determination.** The preparation of a letter of development policy for the forestry sector, in close consultation with the World Bank, is an important step to ensure that the principles of sustainable development are rigorously implemented, and that appropriate instruments of control are put in place. The streamlining of the role of the timber marketing board, the SNBG, which has already started but which will gather new momentum following the completion of a comprehensive study, is essential to ensure the viability of the timber export sector.

57. **The progress made in the area of governance,** through enhanced transparency in the public procurement process, the audit program carried out by the new procurement directorate, and the initiation of activities by the National Commission Against Illicit Enrichment are welcome. It is important that the authorities give full support to the newly established commission, and that the culture of ex post audits of important expenditure programs become entrenched, so as to ensure rigor in budgetary execution.

58. **The banking system is sound,** but there is a need to develop institutions more adapted to supporting the development of small-scale enterprises, the expansion of agriculture, and the financing of residential housing. In this context, microfinance institutions, which only recently have started to expand, should play an important role, especially in support of the new initiatives in the agricultural sector, where large untapped potential exists.

59. **The finalization in early 2005 of a full PRSP, with quantified master plans for the sectors most relevant to poverty reduction, is essential in order to provide a system for monitoring progress in social indicators and an appropriate framework for the medium-term expenditure.**

60. **While the satisfactory program implementation in 2003 gives confidence in the ability of the authorities to stay the course, the program faces substantial risks, and rigorous policy implementation will be essential to its success.** Despite broadly satisfactory performance in 2003, the authorities in the past have not shown the resolve to maintain the course in fiscal adjustment over a protracted period, especially with the approach of elections. The program depends crucially on growth in the non-oil tradable goods sector, and although recent privatizations have improved the outlook for foreign investment, there is uncertainty on whether growth will be sufficiently broadly based to achieve the program targets. Risks in the areas of public finances and growth lead to uncertainty about debt sustainability. Slippages on any of these fronts would compromise the program, and careful monitoring of the program is essential. Quarterly quantitative targets and front-loaded structural conditionality in the program are designed to permit early detection of slippages and prompt adoption of corrective measures.

61. **Additional external financing is unlikely to be available to offset slippages in the program, and the further fiscal tightening that would be necessary may induce “adjustment fatigue.”** Donors are unlikely to provide additional external financing to offset

revenue shortfalls, that may arise from exogenous factors, such as the volatility of oil prices; thus, adverse oil revenue developments will have to be offset by expenditure cuts that may be politically difficult. Given the persistence of financing gaps even after the end of the program period, the adjustment effort will need to continue over a protracted period, along with support from the international community. Sustainability can be achieved only if steady growth in the non-oil sector is maintained and the authorities are able to continue their fiscal adjustment, so as to gradually reduce the weight of the public sector in the economy, in line with declining oil revenue.

**62. In light of Gabon's recent track record, and the authorities' policy commitments, including prior actions, the staff recommends approval of the authorities' request for a 14-month Stand-By Arrangement.** The proposed program reflects the authorities' intention to carry out the sustained public finance adjustment effort needed to avoid a dangerous debt spiral, and to free resources to encourage growth in the non-oil sector. The important measures implemented in the areas of public resource management and governance since mid-2002 and the broadly satisfactory performance under the September-December 2003 staff-monitored program, attest to the authorities' determination to pursue the policies needed to place Gabon on a sustainable path.

Table 1. Gabon: Selected Economic Indicators, 2000–06

	2000	2001	2002	2003		2004	2005	2006
				Prog.	Est.	Projections		
(Annual percent change)								
GDP at constant prices	-1.9	2.0	0.0	0.1	2.8	2.0	-0.7	0.6
Oil	-10.2	-5.7	-1.4	-6.0	7.6	-0.6	-11.7	-9.3
Non-oil	2.1	5.3	0.6	2.4	1.0	3.0	3.5	3.8
GDP at current prices	26.0	-4.7	0.0	-5.5	2.1	-3.9	-2.4	-1.3
GDP deflator	28.5	-6.6	0.0	-5.7	-0.7	-5.8	-1.8	-1.9
Oil	77.5	-12.7	1.0	-13.4	-4.2	-16.0	-4.5	-7.2
Non-oil	3.0	2.2	-0.2	1.4	0.3	2.2	1.7	1.6
Consumer prices								
Yearly average	0.4	2.1	0.2	2.0	2.1	2.0	2.0	2.0
End of period	1.8	1.0	0.4	2.0	3.5	2.0	2.0	2.0
External sector								
Exports, f.o.b. (CFA francs)	51.7	-19.0	-5.7	-7.9	4.2	-4.3	-15.2	-8.2
<i>Of which:</i> oil	65.4	-19.6	-6.9	-10.2	4.8	-3.8	-21.1	-13.7
Imports, f.o.b. (CFA francs)	1.4	9.3	7.1	7.6	-5.4	4.6	0.2	1.7
Export volume	-11.9	-4.2	-3.9	-0.2	6.0	0.3	-6.7	-4.6
Import volume	7.3	9.5	7.2	21.9	16.9	11.5	-1.3	-1.6
Terms of trade (deterioration - )	43.0	-16.9	5.9	4.5	9.6	-4.7	-8.9	-4.9
Nominal effective exchange rate (- = depreciation)	-5.5	1.4	2.3	...	3.3	...	...	...
Real effective exchange rate (- = depreciation)	-6.9	1.7	0.7	...	3.4	...	...	...
Central government finance								
Total revenue	48.4	-2.8	-7.3	-5.3	-3.6	-2.6	-5.4	-5.8
Oil revenue	121.0	-7.6	-19.1	-13.5	-6.4	-10.9	-18.8	-20.3
Non-oil revenue	-11.7	7.1	13.8	5.1	0.0	7.2	7.8	5.1
Total expenditure	0.8	35.1	-8.7	-15.8	-18.6	7.2	-3.3	-0.4
Current	2.1	27.5	-20.1	-12.2	-10.7	3.5	-5.5	-0.7
Capital	-11.6	55.7	-16.5	13.4	-4.4	24.3	3.4	0.6
(In percent of beginning-of-period money, unless otherwise indicated)								
Money and credit								
Net domestic assets	-31.5	42.6	-2.1	4.0	-8.8	-4.2	-4.5	-1.3
Domestic credit	-33.7	38.8	-1.4	8.2	-4.9	-3.3	-3.6	-0.3
Central government	-39.6	27.7	-9.1	1.2	2.0	-8.2	-9.3	-6.3
Credit to the economy (annual percentage change)	8.3	11.8	6.4	7.0	-7.1	4.9	5.7	6.0
Broad money	11.7	17.4	8.7	9.3	-9.4	7.1	8.1	8.3
Velocity of broad money (non-oil GDP)	18.0	7.5	5.7	1.4	-1.2	5.3	5.3	5.5
	3.5	3.5	3.3	3.4	3.4	3.4	3.4	3.4

Table 1. Gabon: Selected Economic Indicators, 2000–06

	2000	2001	2002	2003		2004	2005	2006
				Prog.	Est.			
(In percent of GDP, unless otherwise indicated)								
Gross national savings	41.5	36.8	29.6	34.1	34.4	31.5	27.7	25.8
Government	14.6	8.0	7.5	11.5	11.1	10.3	10.0	8.5
Private sector	27.0	28.8	22.2	22.7	23.3	21.1	17.8	17.3
Gross domestic savings	60.0	56.8	48.7	53.2	50.5	49.1	43.3	40.6
Government	19.7	15.9	10.9	14.7	8.0	7.4	7.4	6.2
Private sector	40.3	40.9	37.8	38.5	42.6	41.6	36.0	34.4
Gross fixed investment	21.8	25.8	24.4	26.6	23.9	25.7	26.2	26.3
Government	2.9	4.7	4.0	4.8	3.7	4.8	5.1	5.2
Private sector	18.9	21.0	20.5	21.9	20.2	20.9	21.2	21.1
Nominal GDP (in billions of CFA francs)	3,618.3	3,448.5	3,448.9	3,257.8	3,520.5	3,382.3	3,300.5	3,257.6
Central government								
Primary budget balance (payments order basis)	17.5	12.0	7.9	10.9	11.4	10.3	8.6	7.0
Overall balance (payments order basis, including grants)	11.6	3.2	3.5	6.7	7.4	5.4	4.7	3.1
Overall balance (payments order basis, excluding grants)	11.6	3.2	3.4	6.6	7.4	5.2	4.5	3.0
Overall balance (cash basis)	4.0	4.8	3.5	6.0	6.4	0.1	3.8	3.1
Domestic bank financing	-4.9	4.2	-1.5	0.2	0.4	-1.4	-1.8	-1.3
Net external financing	4.4	-6.2	-2.2	-3.4	-3.7	-9.6	-4.9	-5.0
Financing gap	0.0	0.0	0.0	0.0	0.0	13.9	4.9	4.9
External current account balance (including official transfers)	19.7	11.0	5.2	7.5	10.5	5.8	1.5	-0.5
External current account balance (excluding official transfers)	20.0	10.8	5.0	7.2	10.4	5.5	1.4	-0.7
External debt service paid (percent of government revenue) 1/	20.1	41.0	13.3	22.7	21.9	20.1	17.8	17.8
External public debt (including the Fund and gap financing)	57.1	63.1	62.7	63.3	55.9	58.6	60.7	61.6
Total public debt (including the Fund and gap financing)	65.8	74.7	76.1	76.0	67.6	67.9	67.3	66.1

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

1/ Including the Fund.



Table 2. Gabon: Fiscal Operations of the Central Government, 2001-04  
(In billions of CFA francs, unless otherwise indicated)

	2001		2002				2003				2004			
	Est.	Budget 6/7/02	Est.	Mar. Est.	Jun. Est.	Sep. Prog. IMF CR 04/28	Dec. Prog. IMF CR 04/28	Prel. est.	IMF CR 04/28	Proj. Mission Mar. 2004	Quarterly projections			Dec.
											Mar.	Jun.	Sep.	
Domestic (net)	46.7	-50.6	-44.9	-27.1	-55.0	-62.7	-85.7	-94.2	-148.3	-148.9	-20.6	-75.0	-111.9	-148.9
Banking system	144.7	-34.1	-51.5	-17.2	-4.4	8.8	32.5	15.8	-93.0	-48.6	6.2	-27.0	-35.3	-48.6
Bank of Central African States (BEAC)	109.5	-25.6	-92.9	-1.7	36.7	18.8	40.7	15.8	-79.3	-32.7	13.3	-16.5	-21.4	-32.7
Commercial banks	35.2	-8.5	41.4	-15.5	-41.1	-10.0	-8.2	0.0	-13.7	-16.0	-7.1	-10.5	-13.9	-16.0
Nonbank sources	-98.0	-16.5	6.6	-9.8	-50.6	-71.5	-91.2	-110.0	-65.3	-100.3	-26.7	-48.0	-76.6	-100.3
Domestic debt	-80.7	-59.2	-75.4	-19.3	-40.1	-57.6	-53.5	-60.1	-62.9	-70.4	-13.3	-31.6	-49.1	-70.4
Oil company advances (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt Accounting Department (DGCFP)	-72.9	-54.2	-69.1	-19.3	-39.6	-56.7	-52.4	-55.3	-52.9	-50.4	-12.4	-28.6	-39.1	-50.4
Securitized commercial agreements	-66.9	-36.5	-36.0	-5.5	-11.0	-15.4	-19.8	-19.8	-16.3	-16.3	-4.1	-8.1	-12.2	-16.3
Of which: advance payments	-10.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other (divers) 4/	-5.9	-17.7	-33.1	-13.8	-28.7	-41.3	-37.0	-35.4	-36.6	-34.1	-8.4	-20.5	-26.9	-34.1
Regularization of civil servants' salaries (rapports)	-7.8	-5.0	-6.3	0.0	-0.5	-1.0	-3.1	-4.8	-10.0	-20.0	-0.9	-3.0	-10.0	-20.0
Change in domestic arrears (on principal, - reduction)	6.1	-10.2	14.1	0.7	5.4	-16.6	7.9	-22.1	0.0	-13.6	-5.0	-5.5	-10.9	-13.6
Restructuring cost 5/	-5.6	-16.7	-17.6	-1.9	-2.0	-2.5	-3.7	-11.3	-9.8	-14.5	-2.5	-4.5	-9.8	-14.5
Social costs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Public enterprise debt	0.0	-19.3	65.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Air Gabon	0.0	0.0	31.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CNSS	0.0	-10.0	36.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	-9.3	-2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt rescheduling/deferral	0.0	0.0	39.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Sales of assets (shares, etc.) to be determined	0.0	94.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization proceeds	3.4	0.0	1.8	1.0	1.0	1.0	1.0	1.0	17.4	11.9	0.0	1.4	10.0	11.9
Other	-21.2	-5.0	-21.4	9.7	-14.8	4.2	-40.9	-31.5	0.0	-13.7	-5.9	-7.8	-16.9	-13.7
Treasury correspondents, including pensions	1.8	0.0	1.4	-5.4	-12.6	1.2	-22.5	1.0	0.0	-5.0	-2.2	-3.0	-10.0	-5.0
Local authorities 6/	-6.2	0.0	-7.9	2.3	2.6	3.0	-4.7	1.0	0.0	-1.0	-0.3	-1.0	-1.0	-1.0
Cancellation of domestic debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Development bank of Gabon (BGD)	0.0	0.0	0.0	-0.1	-0.6	0.0	-0.8	-1.4	0.0	-1.4	-0.5	-0.8	-1.1	-1.4
Other, including transactions between local and central treasury	0.0	0.0	0.0	0.0	0.0	0.0	-9.4	-13.5	0.0	-6.3	-3.0	-3.0	-4.8	-6.3
Errors and omissions	-16.8	-5.0	-14.9	12.9	-4.2	0.0	-3.6	-8.6	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap 7/	0.0	190.0	0.0	0.0	0.0	125.5	0.0	156.2	0.0	531.8	41.8	391.4	436.7	471.5
Memorandum items:														
Primary fiscal balance, including grants (in percent of GDP)	12.0	9.5	7.9	4.9	8.4	8.5	9.9	11.4	8.4	10.3	2.4	5.2	7.2	10.3
Non-oil primary balance, including grants (in percent of non-oil GDP)	-16.8	-9.4	-16.8	0.0	-2.0	-4.6	-4.5	-8.2	-6.9	-7.5	-2.4	-3.3	-5.3	-7.5
Stock of unpaid payments orders at the treasury	177.6	104.3	123.8	64.3	51.0	86.3	59.5	77.1	49.5	41.0	64.9	60.9	57.1	41.0
Fund for Future Generations (balance)	0.0	...	70.4	...	9.3	...	20.0	30.0	85.1	81.7	16.8	50.8	60.0	81.7

Sources: Gabonese authorities; and staff estimates and projections.

1/ The 2002 budget column includes CFAF 16.5 billion for telephone bills relating to 2001, which the authorities had classified under domestic debt repayment in the draft budget.

2/ For 2001: equity participation in Compagnie Minière de l'Ogooué (COMILOG) (CFAF 4.1 billion), advance to OPT (CFAF 6.6 billion), the payment of Air Gabon's debt (CFAF 14.2 billion), and down payments for the purchase of airplanes for Air Gabon (CFAF 13 billion). For 2002: assistance to Air Gabon; and repayment of the CFAF 6.6 billion advance to Gabon Telecom (for the acquisition of a marine cable).

3/ "Other float at the treasury" includes mainly variations in consignments and operations with autonomous bodies.

4/ Including old debt repayments to Société d'Eau et d'Énergie de Gabon (SEEG), National Social Security Fund (CNSS), and Office des Postes et Télécommunication (OPT), as well as debt service on new debt agreements with Gabon Telecom, Gabon Poste, Air Gabon's suppliers, and CNSS. During the last quarter of 2003, there was a deferral of debt obligations amounting to some CFAF 11 billion.

5/ Restructuring costs refer to social costs of privatization and voluntary departures. During 2002, the government also took over suppliers' credit to Air Gabon and debt owed by public enterprises to CNSS, for CFAF 31 billion and CFAF 36 billion, respectively.

6/ Local authorities consist of variations in local entities' account balances with the Treasury.

7/ The financing gap for the program period is expected to be covered by debt rescheduling.

Table 3. Gabon: Fiscal Operations of the Central Government, 2000–06

	2000	2001	2002	2003		2004	2005	2006
				Prog.	Est.			
(In billions of CFA francs)								
Total revenue and grants	1,207.6	1,173.6	1,089.9	1,034.1	1,050.3	1,029.4	971.0	915.2
Revenue	1,207.6	1,173.6	1,088.0	1,030.2	1,049.1	1,021.5	966.0	910.2
Oil revenue	814.7	752.9	609.0	526.6	570.2	508.1	412.7	328.8
Non-oil revenue	392.9	420.8	479.0	503.6	478.9	513.4	553.3	581.3
Direct taxes	81.9	96.6	134.2	136.5	122.6	145.3	149.2	158.1
Indirect taxes	80.2	70.8	83.5	113.8	109.6	115.2	128.5	135.6
Taxes on international trade	214.7	218.4	210.0	204.0	200.3	217.5	230.2	239.6
Import taxes	186.7	187.8	180.9	176.7	171.2	185.5	199.6	207.4
<i>Of which</i>								
VAT	83.6	92.0	88.6	86.6	83.9	90.9	97.8	101.6
Export taxes	28.0	30.6	29.1	27.3	29.1	32.0	30.6	32.2
Other revenue	16.1	35.0	51.3	49.3	46.4	35.4	45.3	47.9
Foreign grants	0.0	0.0	1.9	3.9	1.2	7.9	5.0	5.0
Total expenditure (including net lending)	786.1	1,061.9	969.2	815.9	789.0	845.6	817.3	813.9
Total expenditure (excluding interest payments)	574.1	758.2	817.9	678.7	647.5	681.9	686.6	686.1
Current expenditure	674.8	860.4	687.4	603.9	613.5	635.1	600.3	595.9
Wages and salaries	216.6	219.6	220.6	223.0	229.0	226.0	224.0	221.0
Purchases of goods and services	128.3	177.0	156.7	126.8	124.8	124.5	126.6	129.1
Transfers	117.8	160.1	158.8	116.9	118.3	121.0	119.0	118.0
Interest payments	212.0	303.7	151.3	137.2	141.5	163.6	130.7	127.8
Domestic	27.8	34.3	33.7	27.1	30.4	26.9	16.5	14.5
External (excluding IMF)	184.2	269.4	117.6	110.1	111.1	136.7	114.2	113.3
Capital expenditure	105.1	163.6	136.6	155.0	130.7	162.5	168.0	169.0
Domestically financed investment	82.4	154.3	117.0	122.5	122.0	142.5	133.0	131.0
Foreign-financed investment	22.7	9.3	19.6	32.5	8.7	20.0	35.0	38.0
Net lending (including equity participation)	6.2	37.9	17.1	0.0	0.3	0.0	0.0	0.0
Restructuring cost of public enterprises 1/	0.0	0.0	67.5	0.0	0.0	0.0	0.0	0.0
Road Maintenance Fund (FER) and special funds 2/	...	...	60.5	57.0	44.5	48.0	49.0	49.0
Overall balance, including grants (on a payments order basis)	421.5	111.7	120.7	218.3	261.3	183.8	153.7	101.3
Primary balance, including grants (on a payments order basis)	633.5	415.4	272.0	355.4	402.8	347.4	284.3	229.1
Change in arrears	-276.1	54.7	1.1	-22.9	-36.4	-181.1	-28.5	0.0
External (on interest payments)	-201.3	26.2	81.1	35.0	32.4	-139.4	0.0	0.0
Domestic	-74.9	28.5	-79.9	-57.9	-68.8	-41.7	-28.5	0.0
Overall balance (on a cash basis)	145.4	166.4	121.8	195.4	224.9	2.7	125.2	101.3
Financing	-145.4	-166.3	-121.8	-195.4	-224.9	-474.2	-288.0	-261.3
External (net)	160.2	-213.1	-76.9	-109.9	-130.7	-325.3	-161.3	-161.7
Drawings	22.7	9.3	17.7	32.5	8.7	65.0	35.0	38.0
Project financing	22.7	9.3	17.7	32.5	8.7	20.0	35.0	38.0
Program financing	0.0	0.0	0.0	0.0	0.0	45.0	0.0	0.0
Amortization	-242.1	-309.7	-243.6	-191.7	-198.6	-201.6	-196.3	-199.7
Arrears (on principal)	-271.6	35.0	135.8	39.2	46.1	-186.6	0.0	0.0
Foreign exchange effect on arrears	-9.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt rescheduling and deferral	649.5	29.4	1.3	2.0	2.0	-2.0	0.0	0.0
Debt cancellation	17.0	17.0	11.9	8.0	11.1	0.0	0.0	0.0
Advance external debt payment	-5.9	5.9	0.0	0.0	0.0	0.0	0.0	0.0
Domestic (net)	-305.7	46.8	-44.9	-85.4	-94.2	-148.9	-126.7	-99.6
Banking system	-175.6	144.7	-51.5	7.1	15.8	-48.6	-58.1	-41.6
Bank of Central African States	-59.1	109.5	-92.9	20.5	15.8	-32.7	-45.4	-35.5
<i>Of which : IMF</i>	5.4	-8.1	-9.1	-7.9	-11.8	19.0	8.2	-3.7
Repayment statutory advances	0.0	0.0	0.0	0.0	0.0	0.0	-1.8	-2.0
Commercial banks	-116.5	35.2	41.4	-13.4	0.0	-16.0	-12.6	-6.1

Table 3. Gabon: Fiscal Operations of the Central Government, 2000–06

	2000	2001	2002	2003		2004	2005	2006
				Prog.	Est.			
(In billions of CFA francs)								
Nonbank sources	-130.1	-97.9	6.6	-92.6	-110.0	-100.3	-68.7	-58.0
Domestic debt	-115.0	-80.7	-75.4	-62.2	-60.1	-70.4	-58.0	-44.4
Oil company advances (net)	-36.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt Department (DGCP)	-72.1	-72.9	-69.1	-55.2	-55.3	-50.4	-38.0	-28.2
Debt at treasury	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Regularization of civil servants' salaries ( <i>rappels</i> )	-6.5	-7.8	-6.3	-7.0	-4.8	-20.0	-20.0	-16.2
Change in domestic arrears (on principal, – reduction)	-2.0	6.1	14.1	-22.1	-11.6	-13.6	0.0	0.0
Restructuring cost	-5.5	-5.6	47.9	-11.3	-7.8	-14.5	-11.8	-10.6
Debt rescheduling	0.0	0.0	39.6	0.0	0.0	0.0	0.0	0.0
Privatization proceeds	4.0	3.4	1.8	1.0	1.0	11.9	8.7	0.0
Other 3/	-11.6	-21.1	-21.4	2.0	-31.5	-13.7	-7.5	-3.0
Financing gap 4/	0.0	0.0	0.0	0.0	0.0	471.5	162.8	160.0
Memorandum items: (In percent of GDP, unless otherwise specified)								
Cumulative variation in net bank credit to government from January 1, 2000 (in billions CFA francs)	-175.6	-30.9	...	...	...	...	...	...
Total revenue (excluding grants)	33.4	34.0	31.5	31.6	29.8	30.2	29.3	27.9
Oil revenue	22.5	21.8	17.7	16.2	16.2	15.0	12.5	10.1
Non-oil revenue	10.9	12.2	13.9	15.5	13.6	15.2	16.8	17.8
Total expenditure	21.7	30.8	28.1	25.0	22.4	25.0	24.8	25.0
Total expenditure, excluding interest	15.9	22.0	23.7	20.8	18.4	20.2	20.8	21.1
Current expenditure	18.7	25.0	19.9	18.5	17.4	18.8	18.2	18.3
Wage bill	6.0	6.4	6.4	6.8	6.5	6.7	6.8	6.8
Other current spending	6.8	9.8	9.1	7.5	6.9	7.3	7.4	7.6
Interest	5.9	8.8	4.4	4.2	4.0	4.8	4.0	3.9
Capital expenditure	2.9	4.7	4.0	4.8	3.7	4.8	5.1	5.2
Net lending	0.2	1.1	0.5	0.0	0.0	0.0	0.0	0.0
Restructuring cost of public enterprises	0.0	0.0	2.0	0.0	0.0	0.0	0.0	0.0
Road fund and special funds	...	...	1.8	1.7	1.3	1.4	1.5	1.5
Defense expenditure 5/	1.8	1.9	1.9	2.0	1.8	1.9	1.8	1.8
Primary balance, including grants (on a payments order basis)	17.5	12.0	7.9	10.9	11.4	10.3	8.6	7.0
Overall balance, including grants (on a payments order basis)	11.6	3.2	3.5	6.7	7.4	5.4	4.7	3.1
Overall balance (on a cash basis)	4.0	4.8	3.5	6.0	6.4	0.1	3.8	3.1
(In percent of non-oil GDP)								
Non-oil revenue	21.2	21.1	23.9	24.2	23.6	24.0	24.6	24.5
Primary expenditure	30.9	37.9	40.8	32.6	31.8	31.9	30.5	28.9
Wage bill	11.7	11.0	11.0	10.7	11.3	10.6	9.9	9.3
Non-oil primary balance, including grants	-9.8	-16.9	-16.8	-8.2	-8.2	-7.5	-5.7	-4.2
(In billions of CFA francs, unless otherwise indicated)								
Oil prices (in U.S. dollars/barrel) 6/	28.2	24.3	25.2	27.2	28.9	30.0	27.0	26.0
GDP at market prices	3,618	3,448	3,449	3,258	3,520	3,382	3,301	3,258
Non-oil GDP at market prices	1,857	1,998	2,006	2,084	2,033	2,140	2,253	2,376
Fund for Future Generations (stock)	...	...	70.4	41.9	30.0	81.7	133.6	163.4

Sources: Gabonese authorities; and staff estimates and projections.

1/ Including Air Gabon's suppliers' debt and debt of public enterprises to National Social Security Fund (CNSS) taken over by the government during 2002.

2/ In the budget for 2004, outlays of the Road Maintenance Fund (FER) are in an annex to the budget. Other special funds are recorded off budget.

3/ Includes treasury correspondents, local governments, checks written but not yet cashed, and errors and omissions.

4/ The financing gap for the program period is expected to be covered by debt rescheduling.

5/ Defense spending is partly included under current expenditure and partly under capital spending.

6/ The corresponding national oil prices are US\$1-2 lower.

Table 4. Gabon: Quarterly Monetary Survey, 2002-04

	2002			2003			2004		
	Mar.	Jun.	Dec.	Mar.	Jun.	Dec.	Mar.	Jun.	Dec.
	Actual			Actual			Projections		
	(In billions of CFA francs)								
Net foreign assets	35.1	22.8	45.6	76.9	58.3	73.3	106.6	111.0	111.6
Central bank	-13.2	-1.8	27.9	62.3	36.1	61.8	91.9	96.3	96.9
Deposit money banks	48.3	24.6	17.7	14.6	22.2	11.6	14.6	14.6	14.6
Net domestic assets	552.8	585.8	553.4	524.6	537.0	503.2	512.4	512.2	513.9
Net domestic credit	650.1	678.5	649.8	617.5	649.3	645.6	625.2	625.0	626.7
Net credit to the public sector	246.4	242.6	221.4	173.2	187.0	223.2	216.4	183.2	174.9
Net credit to the government	278.8	262.2	246.1	200.8	216.4	253.5	238.1	204.9	196.6
Central bank	213.8	204.0	170.1	128.9	167.3	171.5	159.8	130.0	125.1
Deposit money banks	65.0	58.2	76.1	71.9	49.0	82.0	78.3	74.9	71.5
Post office savings	2.1	5.0	3.2	3.3	1.5	1.3	6.2	6.2	6.2
Claims on public agencies, net	-34.5	-24.6	-28.0	-30.9	-30.9	-31.6	-27.9	-27.9	-27.9
Credit to the economy	403.8	435.9	428.5	444.3	462.4	422.4	408.8	441.8	451.8
Other items, net	-97.4	-92.7	-96.4	-92.9	-112.3	-142.4	-112.8	-112.8	-112.8
Broad money	587.9	608.5	599.0	601.5	595.3	576.6	619.0	623.2	625.5
Currency outside banks	123.0	124.8	123.9	119.1	117.2	120.1	124.2	134.6	118.9
Demand deposits	215.9	236.5	231.3	232.8	225.2	211.2	236.9	229.9	244.9
Time deposits	249.0	247.3	243.8	249.6	253.0	245.3	256.7	258.7	261.7
Memorandum items:	(Changes in percent of beginning-of-period broad money)								
Monetary survey	(Annual percent changes)								
Net foreign assets	7.6	5.5	9.5	6.8	3.7	6.2	4.9	8.8	6.6
Net domestic assets	-3.9	1.9	-3.8	-6.4	-4.3	-10.0	-2.0	-4.2	1.9
Net domestic credit	-1.8	3.2	-1.8	-5.8	-0.5	-1.1	1.3	-4.1	-3.3
Net credit to the government	1.3	-1.6	-4.4	-3.2	-0.6	5.6	6.2	-1.9	-9.9
Credit to the economy	-2.7	3.0	1.6	-1.9	1.1	-5.5	-5.9	-3.5	5.1
Broad money	3.7	7.4	5.7	0.4	-0.6	-3.7	2.9	4.7	8.5
Credit to the economy	13.9	8.5	12.4	10.0	6.1	-1.4	-8.0	-4.4	6.9
Broad money	5.6	4.5	11.7	2.3	-2.2	-3.7	3.3	4.7	8.5

Sources: BEAC, and staff estimates and projections.

Table 5. Gabon: Monetary Survey, 2000–06

	2000	2001	2002	2003 Est.	2004	2005	2006
					Projections		
Stocks (In billions of CFA francs)							
Net foreign assets	177.2	-8.1	36.1	81.6	137.7	198.8	242.9
Central bank	72.8	-46.0	46.0	66.9	123.0	169.1	213.2
Assets	136.5	9.9	90.1	104.9	181.3	235.6	276.0
Liabilities	-63.7	-56.0	-44.1	-38.0	-57.0	-65.2	-61.5
Deposit money banks	104.4	37.9	-9.9	14.6	14.6	29.6	29.6
Assets	169.0	98.5	72.5	86.6	86.6	101.6	101.6
Liabilities	-64.6	-60.6	-82.5	-71.9	-71.9	-71.9	-71.9
Net domestic assets	350.1	574.8	562.9	510.2	485.2	456.9	448.6
Net domestic credit	455.6	660.2	652.3	623.0	603.6	581.2	579.2
Net credit to the public sector	98.6	241.0	196.7	210.2	161.6	103.5	61.9
Net credit to the government	125.0	271.3	219.8	231.9	183.3	125.2	83.6
Central bank	114.2	223.6	130.7	146.5	113.8	68.4	32.9
Claims	157.3	248.2	231.5	196.8	215.8	222.2	216.5
<i>Of which</i>							
Statutory advances	94.5	194.4	189.2	166.4	166.4	164.6	162.6
Use of IMF credit	62.8	53.8	42.2	30.4	49.4	57.6	54.0
Deposits	43.2	24.6	100.8	50.3	102.0	153.8	183.7
Deposit money banks	10.9	47.7	89.1	85.4	69.5	56.8	50.7
Post office savings	3.9	2.3	2.5	6.2	6.2	6.2	6.2
Claims on public agencies, net	-30.3	-32.6	-25.5	-27.9	-27.9	-27.9	-27.9
Credit to the economy	356.9	419.2	455.6	412.8	442.0	477.7	517.3
Other items, net	-105.4	-85.4	-89.4	-112.8	-118.4	-124.3	-130.6
Broad money	527.3	566.7	599.0	591.8	622.8	655.6	691.4
Currency outside banks	116.2	128.2	132.0	124.2	130.7	137.6	145.1
Demand deposits	204.3	204.0	214.7	220.9	232.5	244.7	258.1
Time deposits	206.9	234.5	252.3	246.7	259.6	273.3	288.2
(Changes in percent of beginning-of-period broad money)							
Net foreign assets	49.5	-35.1	7.8	7.6	9.5	9.8	6.7
Net domestic assets	-31.5	42.6	-2.1	-8.8	-4.2	-4.5	-1.3
Net domestic credit	-33.7	38.8	-1.4	-4.9	-3.3	-3.6	-0.3
Net credit to the government	-39.6	27.7	-9.1	2.0	-8.2	-9.3	-6.3
Credit to the economy	8.3	11.8	6.4	-7.1	4.9	5.7	6.0
Broad money	18.0	7.5	5.7	-1.2	5.3	5.3	5.5
(Annual percent changes, unless otherwise indicated)							
Credit to the economy	11.7	17.4	8.7	-9.4	7.1	8.1	8.3
Broad money	18.0	7.5	5.7	-1.2	5.3	5.3	5.5
<i>Of which</i> : currency outside of banks	10.4	10.3	3.0	-5.9	5.3	5.3	5.5
Memorandum items:							
Velocity							
Non-oil GDP	3.5	3.5	3.3	3.4	3.4	3.4	3.4
Total GDP	6.9	6.1	5.8	5.9	5.4	5.0	4.7
Non-oil GDP growth	5.1	7.6	0.4	1.4	5.3	5.3	5.5
Total GDP growth	26.0	-4.7	0.0	2.1	-3.9	-2.4	-1.3
Credit to the economy/non-oil GDP	19.2	21.0	22.7	20.3	20.7	21.2	21.8

Source: Bank of Central African States (BEAC).

Table 6. Gabon: Balance of Payments, 2000–06

(In billions of CFA francs, unless otherwise indicated)

	2000	2001	2002	2003	2004	2005	2006
			Est.	Prel. Est.	Projections		
Current account (including transfers)	712.7	379.3	178.3	367.9	194.8	50.5	-17.0
Exports, f.o.b.	2,364.2	1,916.0	1,806.5	1,881.7	1,800.6	1,527.7	1,401.6
Oil sector	1,910.1	1,535.9	1,430.1	1,498.8	1,442.3	1,138.4	982.4
Other sectors	454.1	380.1	376.4	382.9	358.3	389.3	419.2
Imports, f.o.b.	-568.2	-621.2	-665.1	-629.1	-658.3	-659.6	-670.7
Oil sector	-195.5	-214.1	-188.2	-202.7	-210.8	-189.5	-177.9
Non-oil private sector	-372.7	-407.0	-476.7	-426.3	-447.5	-470.0	-492.6
Trade balance	1,796.0	1,294.8	1,141.4	1,252.6	1,142.2	868.1	730.9
Services (net)	-1,038.4	-858.1	-905.8	-831.3	-900.8	-768.3	-698.7
<i>Of which</i>							
Interest on public debt (gross)	-187.9	-263.0	-119.3	-112.2	-138.7	-116.8	-115.5
Profits (net)	-327.7	-132.9	-260.4	-225.5	-230.7	-185.5	-162.6
Current transfers (net)	-44.9	-57.4	-57.3	-53.4	-46.6	-49.4	-49.3
Public	-9.6	6.5	7.2	1.2	7.9	5.0	5.0
Private	-35.3	-63.9	-64.5	-54.6	-54.5	-54.4	-54.3
Capital account	-780.5	-576.3	-316.8	-404.8	-282.8	-167.1	-98.9
Capital transfers (net)	0.0	1.9	3.5	26.3	0.0	0.0	0.0
Public 1/	0.0	1.7	3.5	26.3	0.0	0.0	0.0
Private	0.0	0.2	0.0	0.0	0.0	0.0	0.0
Medium- and long-term capital	-221.9	-286.4	-26.6	-119.0	30.9	71.3	79.1
Public sector 2/	-217.0	-268.3	-225.9	-209.5	-139.9	-150.4	-153.9
Drawings (gross)	22.7	9.3	17.7	15.4	65.0	50.0	50.0
Project	22.7	9.3	17.7	8.7	20.0	35.0	38.0
Other (excluding IMF)	0.0	0.0	0.0	6.6	45.0	15.0	12.0
Amortization (gross) 1/	-239.6	-277.5	-243.6	-224.9	-204.9	-200.4	-203.9
Direct investment and portfolio investment (net)	-56.3	-67.6	156.9	51.4	116.7	144.7	149.2
Other capital inflows (net)	51.3	49.4	42.4	39.1	54.1	77.1	83.8
Oil sector	23.4	22.4	20.0	18.5	23.5	38.5	41.9
Assets	-2.3	-1.1	0.0	0.0	0.0	0.0	0.0
Liabilities	25.8	23.5	20.0	18.5	23.5	38.5	41.9
Non-oil sector	27.9	27.0	22.4	20.6	30.6	38.6	41.9
Assets	-11.7	7.6	0.0	0.0	0.0	0.0	0.0
Liabilities	39.6	19.4	22.4	20.6	30.6	38.6	41.9
Short-term capital	-558.5	-291.8	-293.6	-312.1	-313.7	-238.5	-178.0
Oil sector	-5.7	-69.3	-85.7	-60.3	-84.4	-59.0	-35.8
Non-oil sector	-449.4	-138.1	-141.5	-251.8	-229.3	-179.4	-142.2
Errors and omissions	-103.4	-84.3	-66.4	0.0	0.0	0.0	0.0
Overall balance	-67.8	-197.0	-138.5	-36.9	-88.0	-116.7	-115.9
Financing	67.8	197.0	138.5	36.9	-383.4	-46.1	-44.1
Central bank, net foreign assets (- = increase)	-114.9	119.1	-92.0	-20.9	-57.4	-46.1	-44.1
IMF liabilities (- = increase)	6.0	-7.1	-13.5	-6.1	19.0	8.2	-3.7
Purchases (gross)	6.0	0.0	0.0	0.0	32.2	21.5	0.0
Repurchases (gross)	0.0	-7.1	-13.5	-6.1	-13.3	-13.3	-3.7
Other net assets (- = increase)	-120.9	126.1	-78.5	-14.8	-76.4	-54.3	-40.4
Debt rescheduling	649.1	0.0	1.3	2.0	0.0	0.0	0.0
Debt cancellation (and other)	17.0	17.0	11.9	8.0	0.0	0.0	0.0
Arrears net (- = reduction)	-483.5	60.9	217.3	47.8	-326.0	0.0	0.0
Other exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap 3/	0.0	0.0	0.0	0.0	471.5	150.8	160.0

Table 6. Gabon: Balance of Payments, 2000–06

(In billions of CFA francs, unless otherwise indicated)

	2000	2001	2002 Est.	2003 Prel. Est.	2004	2005 Projections	2006
Memorandum items:							
Current account (including official transfers)	19.7	11.0	5.2	10.5	5.8	1.5	-0.5
Oil	32.2	27.2	20.0	23.0	21.6	16.6	14.4
Non-oil	-12.5	-16.2	-14.9	-12.6	-15.9	-15.1	-14.9
Current account (excluding official transfers)	20.0	10.8	5.0	10.4	5.5	1.4	-0.7
Capital account	-21.6	-16.7	-9.2	-11.5	-8.4	-5.1	-3.0
Overall balance	-1.9	-5.7	-4.0	-1.0	-2.6	-3.5	-3.6
Gross official reserves (in billions of CFA francs)	136.5	9.9	90.1	104.9	181.3	235.6	276.0
In months of imports of GNFS	1.5	0.1	1.0	1.2	1.9	2.6	3.1
World oil price (U.S. dollars/barrel)	28.2	24.3	25.2	28.9	30.0	27.0	26.0
National oil price (U.S. dollars/barrel)	27.2	22.6	24.2	27.6	28.9	25.8	24.9
Oil production (in millions of tons)	13.6	13.0	12.6	13.5	13.3	11.5	10.2
GDP (in billions of CFA francs)	3,618.3	3,448.5	3,448.9	3,520.5	3,382.3	3,300.5	3,257.6
Exchange rate CFA francs per U.S. dollar (average)	710.0	732.4	695.4	580.1	532.6	...	...

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

1/ In 2003, it includes (cumulated) debt cancellation by Agence Française de Développement and Banque de France for 2004-13.

2/ It includes both direct and guaranteed debt.

3/ The financing gap for the program period is expected to be covered by debt rescheduling.

Table 7. Gabon: Quantitative Benchmarks and Indicative Targets Under the Staff-Monitored Program, 2002-03  
(In billions of CFA francs; cumulative flows from January 1) 1/

	2003											
	2002		Mar.		Jun.		Sep.		Dec.		Deviation	
	Dec.	Est.	Target	Est.	Target	Est.	Prog.	Est.	Prog.	Est.		
<b>Benchmarks</b>												
Ceiling on the net claims of the banking system on the government 2/ 3/	-51.5	3.4	3.4	-5.3	-5.3	8.8	7.1	14.5	47.3	Not met		
Adjusted target 2/ 3/	...	35.8	-17.3	-31.5	-5.0	-34.3	31.8	8.7	-23.8	Met		
Ceiling on the contracting or guaranteeing of new nonconcessional external debt with maturity of over one year by the government 4/ 5/	17.7	42.5	0.9	42.5	0.9	32.5	2.1	32.5	3.7	Met		
Ceiling on outstanding stock of new nonconcessional external debt with original maturity of one year or less owed or guaranteed by the government 4/ 5/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	Met		
Limit on the accumulation of external payments arrears 6/	216.9	0.0	0.0	0.0	0.0	0.0	0.0	4.8	4.8	Not met		
Floor on the net reduction of domestic payments arrears (reduction "·")	-65.8	-6.3	-64.2	-30.3	-67.8	-59.9	-72.6	-80.4	-40.4	Met		
Floor on the primary fiscal balance (on a payments order basis) 7/	272.0	118.7	118.7	246.3	246.3	299.8	355.4	402.8	47.3	Met		
Adjusted target 6/	...	133.7	172.4	296.4	296.7	347.8	350.3	402.8	3.7	Met		
<b>Indicative targets:</b>												
Floor on non-oil government revenue	479.0	112.4	111.6	252.7	237.7	367.5	349.0	478.9	-24.7			
Ceiling on the government wage bill on a payments order basis	220.6	56.7	58.6	107.9	112.4	162.4	170.4	223.0	6.0			
Ceiling on total noninterest expenditure on a payments order basis	817.9	151.2	111.0	295.4	278.9	463.2	440.9	647.5	-31.2			
<b>Memorandum items:</b>												
Nonproject external financing disbursements (excluding IMF)	1.9	0.6	0.0	1.3	0.0	1.9	0.5	1.2	-2.7			
External debt service due (excluding IMF)	361.2	84.7	86.9	154.0	156.7	231.1	241.7	309.7	8.0			
Domestic debt service due	109.1	39.7	26.4	61.2	53.8	78.6	77.7	90.5	1.3			
Oil revenue	609.0	156.9	171.8	287.8	337.8	393.7	441.7	526.6	43.6			
Rescheduling of external debt 8/	0.0	46.5	0.0	77.7	0.0	125.5	0.0	156.2	-156.2			
Privatization proceeds	1.8	1.0	1.0	1.0	1.0	1.0	1.0	1.0	0.0			

Sources: Gabonese authorities; and staff estimates and projections.

1/ Targets for March and June 2003 are prior actions. Targets for September and December 2003 are benchmarks under the SMP.

2/ The benchmarks will be adjusted upward/downward for any lower/higher oil revenues, lower/larger nonproject external financing disbursement net of external debt service paid, larger/smaller net reductions in domestic arrears, and smaller/larger privatization proceeds as defined in paragraphs 17 and 18 of the TMU, relative to program targets.

3/ As the program target on bank financing included repayments to the Development Bank of Gabon (BDG), the actual net bank financing was adjusted downward for the repayment of BDG's claims.

4/ This benchmark applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted by the IMF Executive Board on August 24, 2000, but also to commitments contracted or guaranteed for which value has not been received. Excluded from this benchmark are rescheduling arrangements and purchases from the Fund. For purposes of this benchmark, the term "nonconcessional" means that the debt has a grant element of less than 35 percent calculated on the basis of currency-specific discount rates that are based on the OECD commercial interest reference rates (CIRs).

5/ Excluded from this benchmark are rescheduling arrangements, purchases from the Fund, and normal import-related credits.

6/ The nonaccumulation of new external payments arrears will constitute a continuous benchmark. The end-2003 stock of arrears includes CFAP 1 billion of guaranteed debt.

7/ The benchmark on the primary fiscal balance will be adjusted upward/downward for any higher/lower-than-programmed oil revenue (see paragraph 17 of the TMU).

8/ These amounts represent the estimate of obligations falling due in 2003 that are reschedulable.

Table 8. Gabon: Status of Implementation of Structural Benchmarks Under the Staff-Monitored Program

Measures	Implementation Period	Status of Implementation
<b>Fiscal policy</b>		
Adoption by the Council of Ministers of a draft budget law for 2004 based on the new budget classification system.	End-December 2003	Done
Integration of the budget of the Road Maintenance Fund (FER) in the 2004 government budget.	End-December 2003	Done
Preparation of a report on the execution of the investment budget in the January-September 2003 period.	End-December 2003	Done
No granting of exemptions to any company beyond those already provided for under the mining, forestry, and investment code, and no renewal of existing exemptions.	Continuous benchmark	Done
<b>External Sector</b>		
Removal of the surtax on lubricants and mineral water.	End-December 2003	Done
<b>Good governance</b>		
Finalization of the decree requiring a wealth declaration by public officials.	End-December 2003	Done
Adoption by the Council of Ministers of the draft ethics code for government officials under preparation.	End-December 2003	Done with delay in early February 2004.
Inclusion in the annual government budgets, starting with 2004, of an adequate operating budget for the National Commission to Combat Illicit Enrichment.	End-December 2003	Done
<b>Development of the private sector</b>		
Launching of call for bids for the privatization of HEVEGAB.	End-September 2003	Done

Table 8. Gabon: Status of Implementation of Structural Benchmarks Under the Staff-Monitored Program

Measures	Implementation Period	Status of Implementation
Adoption of a plan of action for the restructuring of the national forestry company (SNBG) aimed at clarifying the respective roles of SNBG and private operators and making the system for determining the port price more flexible.	End-December 2003	Done partially. The KPMG report only addressed the issue of the determination of the producer price in relation with the world market price for logs. A new comprehensive study is expected to address the role of SNBG.
Abolition of the General Directorate of Price Controls.	End-December 2003	Done

Table 9. Gabon: External Financing Requirements and Sources, 2003-06  
(In billions of CFA francs)

	2003 Est.	2004	2005	2006
		Projections		
1. Gross financing requirements	195.0	-433.7	-222.6	-270.0
External current account deficit (excluding official transfers)	366.7	186.9	45.5	-22.0
Debt amortization	-198.6	-204.9	-200.4	-203.9
Medium- and long-term debt	-198.6	-204.9	-200.4	-203.9
Public sector	-172.0	-189.2	-193.2	-197.6
Multilateral 1/	-31.8	-32.3	-33.6	-32.6
Bonds and notes	0.0	0.0	0.0	0.0
Bilateral	-140.2	-156.9	-159.5	-165.0
Commercial banks	-8.5	-4.0	0.0	0.0
Corporate private sector	-18.1	-11.7	-7.3	-6.3
Short-term debt 2/	0.0	0.0	0.0	0.0
Repayment of arrears	47.8	-326.0	0.0	0.0
Gross reserves accumulation	-14.8	-76.4	-54.3	-40.4
IMF repurchases and repayments	-6.1	-13.3	-13.3	-3.7
2. Available financing	-195.0	433.7	222.6	270.0
Foreign direct investment (net)	51.4	116.7	144.7	149.2
Debt financing from private creditors	-273.0	-259.6	-161.4	-94.2
Medium- and long-term financing	39.1	54.1	77.1	83.8
To public sector	0.0	0.0	0.0	0.0
<i>Of which: balance of payments financing 3/</i>	0.0	0.0	0.0	0.0
To commercial banks	0.0	0.0	0.0	0.0
To corporate private sector	39.1	54.1	77.1	83.8
Short-term financing	-312.1	-313.7	-238.5	-178.0
<i>Of which: balance of payments financing 3/</i>	0.0	0.0	0.0	0.0
Official creditors 4/	16.6	72.9	55.0	55.0
Multilateral 1/	10.6	56.2	31.0	29.2
<i>Of which: balance of payments financing 3/</i>	7.1	48.2	17.0	14.0
Bilateral	5.9	16.7	24.0	25.8
To public sector	5.9	16.7	24.0	25.8
<i>Of which: balance of payments financing 3/</i>	0.7	4.7	3.0	3.0
To private sector	0.0	0.0	0.0	0.0
IMF	0.0	32.2	21.5	0.0
Accumulation of arrears (including debt rescheduling/deferral/cancellation)	10.0	0.0	0.0	0.0
Financing gap	0.0	471.5	162.8	160.0
Other flows 5/	0.0	0.0	0.0	0.0
Memorandum item:				
Total balance of payments financing 3/	17.9	556.6	204.3	177.0

1/ Excluding the IMF.

2/ Original maturity of less than 1 year. Stock at the end of the previous period.

3/ Includes those transactions that are undertaken for the purpose of financing a balance of payments deficit or an increase in reserves.

4/ Includes both loans and grants.

5/ Includes all other net financial flows, and errors and omissions.



Table 10. Gabon: External Debt Outstanding and Scheduled Debt Service, 2000–06

	2000	2001	2002	2003	2004	2005	2006
					Projections		
(In billions of CFA francs)							
Debt rescheduling/deferral	649.1	0.0	1.3	2.0	0.0	0.0	0.0
Debt service rescheduling	277.3	0.0	1.3	2.0	0.0	0.0	0.0
Principal	142.2	0.0	1.3	2.0	0.0	0.0	0.0
Interest	135.1	0.0	0.0	0.0	0.0	0.0	0.0
Arrears rescheduling	371.8	0.0	0.0	0.0	0.0	0.0	0.0
Principal	214.4	0.0	0.0	0.0	0.0	0.0	0.0
Interest	157.5	0.0	0.0	0.0	0.0	0.0	0.0
Debt service paid (including IMF)	242.4	481.7	144.8	227.1	...	...	...
Principal	155.9	249.4	105.6	155.6	...	...	...
Interest	86.5	232.3	39.2	71.6	...	...	...
(In percent)							
Memorandum items:							
External public debt/GDP							
Including IMF	57.1	63.1	62.7	55.9	58.6	60.7	61.5
Excluding IMF	47.8	54.2	54.7	49.9	52.4	54.7	56.5
External public debt/exports 5/							
Including IMF	82.9	106.7	112.0	98.0	102.9	121.2	131.3
Excluding IMF	69.4	91.6	97.7	87.5	92.0	109.2	120.5
Debt-service ratio 5/							
Due (before relief)	17.0	26.9	20.9	15.9	18.5	20.0	21.2
Principal	9.3	15.0	12.7	10.3	11.3	12.9	13.6
Interest	7.7	11.9	8.2	5.6	7.2	7.1	7.6
Paid	9.7	23.6	7.5	11.3	...	...	...
Principal	6.3	12.2	5.5	7.8	...	...	...
Interest	3.5	11.4	2.0	3.6	...	...	...
Debt service/government revenue 6/							
Due (before relief)	35.1	46.7	37.1	30.4	34.9	34.2	35.5
Paid	20.1	41.0	13.3	21.6	...	...	...
Debt service/non-oil GDP							
Due (before relief)	22.9	27.4	20.1	15.7	16.7	14.7	13.6
Paid	13.1	24.1	7.2	11.2	...	...	...

Sources: Gabonese authorities; and staff estimates and projections.

1/ End-of-period data; public and publicly guaranteed debt.

2/ Arrears through end-2002 were due to multilateral and bilateral creditors, and to commercial banks. By end-2003, CFAF 321 billion corresponds to reschedulable debt. The rest correspond to CFAF 4.8 billion of arrears on nonreschedulable debt that were cleared during January and early February 2004.

3/ Beginning in 2004, new debt includes potential rescheduling of arrears.

4/ Debt service is net of cancellation.

5/ In percent of exports of goods and services.

6/ Government revenue, excluding grants.

Table 11. Gabon: Indicators of External Vulnerability, 1999–2003

	1999	2000	2001	2002	2003
Exports (percent change, 12-month basis in U.S. dollars)	32.8	31.4	-21.4	-0.7	24.8
Imports (percent change, 12-month basis in U.S. dollars)	-21.5	-12.2	6.0	12.8	13.4
Terms of trade (percent change, 12-month basis)	37.9	43.0	-16.9	5.9	9.6
Current account balance, including grants (in percent of GDP)	34.7	19.7	11.0	5.2	10.5
Gross official reserves (in millions of U.S. dollars)	22.8	191.2	13.8	136.9	194.1
Gross official reserves (in months of imports of goods and services of the following year) 1/	0.2	2.1	0.1	1.4	1.6
Gross reserves of the banking system (in millions of U.S. dollars) 1/	101.7	428.1	150.9	247.2	354.3
Gross reserves of the banking system (in months of imports of goods and services of the following year) 1/	0.6	3.0	1.1	1.7	2.8
Central bank short-term foreign liabilities (in millions of U.S. dollars) 1/	90.8	89.2	77.9	67.0	70.3
Official reserves/broad money (M2) (in percent) 1/	3.2	25.9	1.8	15.0	17.7
Total short-term external debt by original maturity (in millions of U.S. dollars)	0.0	0.0	0.0	0.0	0.0
Total short-term external debt by remaining maturity (in millions of U.S. dollars)	0.0	0.0	0.0	0.0	0.0
Total short-term external debt/reserves by original maturity (in percent)	0.0	0.0	0.0	0.0	0.0
Total short-term external debt/reserves by remaining maturity (in percent)	0.0	0.0	0.0	0.0	0.0
Total external public and publicly guaranteed debt (in millions of U.S. dollars)	3,688.7	2,894.7	3,029.2	3,288.7	3,639.0
Total external debt to exports of goods and services (in percent)	138.1	82.9	106.7	112.0	98.0
External interest payments to exports of goods and services (in percent)	10.5	7.8	8.4	3.3	3.1
External amortization payments to exports of goods and services (in percent)	12.7	10.4	9.8	6.9	5.8
Exchange rate (per U.S. dollar, period average)	614.9	710.0	732.4	695.4	580.1
Exchange rate (per U.S. dollar, end of period)	619.5	713.5	718.4	658.0	540.5
Net foreign assets of commercial banks (in millions of U.S. dollars)	-3.1	146.3	52.8	-15.1	27.1

Sources: Gabonese authorities; and staff estimates.

1/ Gabon is a member of the Central African Economic and Monetary Community (CEMAC) and of its regional central bank (BEAC). Gross reserves in the table are BEAC's gross reserves imputed to Gabon.

Table 12. Gabon: Purchase Schedule and Terms Under the Proposed Stand-By Arrangement, 2004–05

Date	Condition for Purchase	Purchases
May 2004	First purchase. Executive Board approval of the Stand-By Arrangement.	SDR 13.888 million (9 percent of quota).
September 2004	Second purchase. Executive Board conclusion of the first review under the Stand-By Arrangement, on the basis of quantitative and structural performance criteria at end-June 2004.	SDR 13.888 million (9 percent of quota).
December 2004	Third purchase. Executive Board conclusion of the second review under the Stand-By Arrangement, on the basis of quantitative and structural performance criteria at end-September 2004.	SDR 13.888 million (9 percent of quota).
March 2005	Fourth purchase. Executive Board conclusion of the third review under the Stand-By Arrangement, on the basis of quantitative and structural performance criteria at end-December 2004.	SDR 13.888 million (9 percent of quota).
May 2005	Fifth purchase. Executive Board conclusion of the fourth review under the Stand-By Arrangement, on the basis of quantitative and structural performance criteria at end-March 2005.	SDR 13.888 million (9 percent of quota).

Table 13. Gabon: Fund Position During the Period of the Proposed Stand-By Arrangement, 2004-07

	2004		2005		2006		2007		
	Mar. 31	Apr.-Jun.	Jul.-Dec.	Jan.-Jun.	Jul.-Dec.	Jan.-Jun.	Jul.-Dec.	Jan.-Jun.	Jul.-Dec.
Purchases (GRA)									
Stand-By Arrangement	...	13.9	27.8	27.8	0.0	0.0	0.0	0.0	0.0
Repurchases (GRA)	...	6.7	8.4	8.4	8.4	3.2	1.4	1.4	5.2
Proposed new Stand-By Arrangement	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0	5.2
Charges and interest	...	0.3	0.8	1.0	1.0	0.9	0.9	0.9	0.8
Proposed new Stand-By Arrangement	...	0.1	0.4	0.7	0.8	0.8	0.8	0.8	0.7
Total Fund credit outstanding (end of period)	37.8	44.9	64.4	83.8	75.4	72.2	70.8	69.4	64.2
Proposed new Stand-By Arrangement	...	13.9	41.7	69.4	69.4	69.4	69.4	69.4	64.2
				(In millions of SDRs)					
				(In percent of quota) 1/					
Total Fund credit outstanding (end of period)	24.5	29.1	41.7	54.3	48.9	46.8	45.9	45.0	41.6
Stand-By Arrangement purchases	...	9.0	18.0	18.0	0.0	0.0	0.0	0.0	0.0
Repurchases	...	4.3	5.4	5.4	5.4	2.1	0.9	0.9	3.4
Charges and interest	...	0.2	0.5	0.7	0.7	0.6	0.6	0.6	0.5

Sources: Finance Department; and staff projections.

1/ Gabon's quota is SDR 154.3 million.

Table 14. Gabon: Indicators of Financial Obligations to the Fund, 2000–09

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
							Projections			
Outstanding use of Fund credit <sup>1/</sup>										
In millions of SDRs	68.4	59.6	49.5	39.4	64.4	75.4	70.8	64.2	31.3	1.7
In billions of CFA francs	63.6	53.8	43.4	31.2	51.9	60.8	57.1	51.8	25.2	1.4
In percent of government revenue and grants	5.3	4.6	4.0	3.0	5.0	6.3	6.2	6.1	2.9	0.2
In percent of exports of goods and nonfactor services (f.o.b.)	2.6	2.6	2.2	1.6	2.6	3.6	3.6	3.4	1.7	0.1
In percent of external public debt, including the Fund	3.1	2.5	2.0	1.6	2.6	3.0	2.9	2.6	1.3	0.1
In percent of GDP	1.8	1.6	1.3	0.9	1.5	1.8	1.8	1.6	0.7	0.0
In percent of quota	44.3	38.7	32.1	25.6	41.7	48.9	45.9	41.6	20.3	1.1
Repurchases and charges due										
In millions of SDRs	10.4	11.7	13.7	11.2	17.9	17.7	6.4	7.2	33.4	29.6
In billions of CFA francs	9.7	10.9	12.3	9.1	14.2	14.1	5.1	5.7	26.6	23.5
In percent of government revenue and grants	0.8	0.9	1.1	0.9	1.4	1.5	0.6	0.7	3.1	2.8
In percent of exports of goods and nonfactor services (f.o.b.)	0.4	0.5	0.6	0.5	0.7	0.8	0.3	0.4	1.8	1.6
In percent of external public debt, including the Fund	0.5	0.5	0.6	0.5	0.7	0.7	0.3	0.3	1.3	1.2
In percent of GDP	0.3	0.3	0.4	0.3	0.4	0.4	0.2	0.2	0.8	0.7
In percent of quota	6.7	7.6	8.9	7.3	11.6	11.5	4.2	4.7	21.6	19.2
Net use of Fund credit (in millions of SDRs)	5.8	-8.7	-10.1	-10.1	24.9	11.1	-4.6	-6.6	-33.0	-29.5
Purchases	13.2	0.0	0.0	0.0	41.7	27.8	0.0	0.0	0.0	0.0
Repurchases	7.4	8.7	10.1	10.1	16.7	16.7	4.6	6.6	33.0	29.5

Sources: IMF, Treasurer's Department; Gabonese authorities; and staff estimates and projections.

<sup>1/</sup> At end of period; assuming drawings under the Stand-By Arrangement in 2004–05.

Table 15. Gabon: Income and Social Indicators, 1970–2001

	Gabon				Same Region/Income Group	
	1970–75	1980–85	1993–2000	2001	Sub-Saharan Africa	Upper-middle income
<b>Population</b>						
Total population, midyear (millions)	0.6	0.8	1.2	1.3	659.0	647.0
Growth rate (annual average, in percent)	3.3	3.3	2.4	2.0	2.6	1.3
Urban population (in percent of population)	40.0	5.2	81.0	82.0	34.0	76.0
Total fertility rate (births per woman)	4.3	4.5	5.1	5.0	5.3	2.7
<b>Poverty</b> (in percent of population)						
National head count index 1/	66.0 2/	...	62.0	...	...	...
<b>Income</b>						
GNP per capita (U.S. dollars)	3,100.0	3,900.0	3,877.0	3,160.0	538.0	5,407.0
Consumer price index (1995=100)	26.0	76.0	107.5	109.3	131.0	122.0
Food price index (1995=100)	...	76.0	107.0	...	130.5	...
<b>Social indicators</b>						
Public expenditure (in percent of GDP)						
Health	...	...	3.1	3.0	4.0	5.5
Education	2.1	5.0	2.9	...	4.1	5.0
Gross school enrollment rates (in percent of age group)						
Primary	...	172.0	162.3	151.0	78.0	107.0
Secondary	...	43.0	56.2	54.0	25.0	64.0
Tertiary	...	6.0	8.0	...	3.0	14.0
Access to safe water (in percent of population)						
Total	...	58.0	67.0	70.0	...	...
Urban	...	75.0	80.0	73.0	...	...
Rural	...	34.0	30.0	55.0	...	...
Immunization rate (in percent of children under 12 months)						
Measles	...	58.0	30.0	55.0	57.0	78.0
DPT	...	24.0	31.0	37.0	59.0	75.0
Life expectancy at birth (years)						
Total	45.0	49.0	53.0	53.0	47.0	66.0
Male	43.0	47.0	51.0	51.0	46.0	65.0
Female	47.0	51.0	54.0	54.0	48.0	69.0
Mortality						
Infant (per 1,000 live births)	132.0	112.0	84.0	58.0	92.0	54.0
Under 5 (per 1,000 live births)	232.0	194.0	...	89.0	161.0	78.0
Adult (15-59)						
Male (per 1,000 population)	521.0	474.0	386.0	...	499.0	221.0
Female (per 1,000 population)	421.0	387.0	344.0	...	453.0	170.0
Maternal (per 100,000 live births)	...	600.0	...	620.0	...	...

Source: World Bank, *World Development Indicators*, 2003.

1/ Defined as the share of the population with per capita consumption of less than two-thirds of the national average.

2/ As of 1960.

Libreville, May 6, 2004

Ms. Anne O. Krueger  
Acting Managing Director  
International Monetary Fund  
Washington, D.C. 20431

Dear Ms. Krueger:

1. In 2003, the government of Gabon, aware of the need to face the difficult challenges resulting from the decline in oil production, debt burden, and low social indicators, adopted a medium-term adjustment program for the period 2003-06 that is aimed at diversifying its economy, accelerating growth, and reducing poverty. In the second half of 2003, as part of its medium-term program, the government implemented a staff-monitored program that has achieved satisfactory results. To enhance its adjustment and structural reform efforts, a program has been developed for 2004-05; its objectives and policies are presented in the attached memorandum of economic and financial policies. In support of these policies, the government of Gabon is requesting a 14-month Stand-By Arrangement with the Fund in an amount equivalent to SDR 69.44 million, corresponding to 45 percent of Gabon's quota in the Fund.
2. The government believes that the policies and measures described in the attached memorandum are sufficient to attain the program objectives, but it stands ready to take any further measures that may become appropriate for this purpose. The government will consult with the Fund periodically, in accordance with Fund policies on such consultations and will provide the Fund staff with any information that it may request for monitoring progress in program implementation. After the arrangement expires, and while Gabon has outstanding obligations to the Fund, we will consult with the Fund on Gabon's economic and financial policies at the initiative of the government of Gabon or at the request of the Managing Director, in line with the Fund's policies on such consultations.
3. Program implementation will be monitored through quarterly quantitative performance criteria, as well as structural performance criteria and benchmarks, and by means of quarterly reviews with the Fund, the first of which will be concluded by end-September 2004, the second by end-December 2004, the third by end-March 2005, and the fourth before end-June 2005.
4. The government authorizes the Fund to publish its memorandum of economic and financial policies for 2004-05 and the forthcoming staff report for the request of the Stand-By Arrangement.

Sincerely yours,

/s/

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

Attachments: Memorandum of Economic and Financial Policies and Technical  
Memorandum of Understanding.

## MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES FOR 2004-05

### I. INTRODUCTION

1. **The government of Gabon has continued implementing its medium-term program covering 2003-06.** Satisfactory performance was achieved under the staff-monitored program (SMP) covering September-December 2003,<sup>17</sup> prepared with Fund staff in the context of our medium-term adjustment program. The objective of this program is to meet the difficult challenges facing the Gabonese economy, namely, a heavy debt burden, the prospect of a continuing decline in oil production, a low degree of economic diversification, and very weak social indicators in conjunction with a high poverty rate.

2. **The government is convinced that the challenges facing the Gabonese economy require the continuation of the adjustment effort,** together with a strengthening of the structural measures aimed at promoting private investment and economic diversification, so as to boost the rate of growth and reduce poverty consistently with the Millennium Development Goals. This memorandum describes the economic policies and objectives set by the government of Gabon for the period April 2004-June 2005, in support of which it is requesting a Stand-By Arrangement with the Fund. These policies are consistent with the main objectives of the interim poverty reduction strategy paper (dated October 28, 2003); that paper is being finalized in the context of a participatory process with donor support.

### II. RECENT ECONOMIC DEVELOPMENTS AND PERFORMANCE UNDER THE STAFF-MONITORED PROGRAM

3. **Macroeconomic policy implementation in 2003 was broadly on track with program objectives.** Based on provisional data, real GDP growth, at 2.8 percent, was higher than originally envisaged (0.1 percent in the program), reflecting stronger growth in the oil sector, which offset a lower-than-expected growth of the non-oil sector (with a growth rate provisionally estimated at 1 percent, compared with 2.4 percent in the program). The production of crude oil in 2003 rose to 13.4 million tons, an increase of 6.9 percent from the 2002 level, thanks to a vast investment and technological improvement program that made it possible to increase oil recovery in the Rabi field and in other fields. The growth of non-oil GDP was modest, owing to the decline in activity in the construction and public works, timber, and services sectors, which was offset by solid performance in the electricity, agriculture, transport, and manganese sectors. At the same time, inflation was contained at a low level, at only 2 percent on an annual average.

4. **The external current account improved in 2003, with the surplus rising from 5.2 percent of GDP in 2002 to 10.5 percent in 2003,** owing to the increase in oil exports

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<sup>17</sup> The SMP was presented to the Board in the context of the 2003 Article IV consultations held on November 10, 2003.

(4.8 percent in value terms) accompanied by a reduction in imports (-5 percent in value terms). The overall balance of payments deficit was reduced. However, the increase in the Bank of Central African States (BEAC) foreign exchange reserves attributable to Gabon was smaller than in 2002, owing to substantial repayments of external debt arrears not eligible for rescheduling.

5. **Monetary developments in 2003 were characterized by a pronounced decline in credit to the economy (7 percent of the beginning-of-period money stock).** This reduction is explained by the treasury's settlement of arrears to the private sector, which, in turn, reduced its indebtedness to the banking system. This factor, in conjunction with modest increases in the banking system's foreign assets and in net credit to the government, resulted in a 1.2 percent drop in the money supply. While the banks' nonperforming loans as a percentage of gross lending rose modestly, the amount covered by provisions for bad debts was substantially increased. There was also an intensification of the inspection missions performed by the regional banking commission (COBAC).

6. **To stabilize the macroeconomic situation, the government undertook a very ambitious fiscal adjustment effort,** cutting the non-oil primary deficit from 16.8 percent of non-oil GDP in 2002 to 8.2 percent in 2003. A shortfall in non-oil revenue was offset by lower primary expenditure. On the revenue side, non-oil revenue fell short of target by CFAF 25 billion, or 1.2 percentage point of non-oil GDP, while oil revenue exceeded projections by CFAF 43 billion (1.2 percent of GDP). On the expenditure side, total outlays remained below the program target by the equivalent of 0.8 percent of non-oil GDP, mainly because of lower capital expenditure, which more than offset the overshooting of the wage bill target.

7. **Four of the six quantitative benchmarks were observed.** In particular, the benchmarks relating to the primary budget balance and the reduction of domestic arrears were observed and even slightly exceeded, and the program ceilings on the contracting of new external loans were respected. As for the benchmark relating to the nonaccumulation of external arrears not subject to rescheduling, some payments delays on debt obligations (totaling CFAF 4.8 billion, including CFAF 1 billion in respect of the guaranteed debt) occurred toward the end of 2003, but these were settled in early February 2004. The benchmark set for net bank credit to the government was exceeded by an amount equivalent to 1.5 percent of GDP, but the efforts made in the last quarter of 2003 made it possible to narrow the slippage observed at end-September 2003 substantially.

8. **The major factor behind the slippage in net credit to the government** was the lower-than-projected nonbank financing, owing to the sizable drawdowns on prior balances with the treasury by local governments and treasury correspondents, in particular the Social Guarantee Fund (CNGS) the National Housing Fund, and the National Water Fund. The slippage at end-December 2003 would have been smaller by 0.3 percentage points of GDP (CFAF 10.6 billion) had the definition of net credit to the government not included the increase in private deposits with the postal checking system (CFAF 3.6 billion), which do not constitute amounts available to the treasury, and had the reduction in the amount of payments

in process at the decentralized treasury offices (CFAF 5.5 billion) and at the embassies (CFAF 1.5 billion) been included in the definition of the reduction in float at the treasury.<sup>18</sup>

9. **Despite the efforts made to control current expenditure**, the wage bill exceeded the indicative target set forth in the program, in particular because of the impact of the regularization of the administrative position of government employees following the 2001 census, and the recruitment in the security, education, and health sectors. The reduction in the number of advisors to the Office of the President of the Republic and in the ministries and other institutions, decided in August 2003, did not begin to have a financial impact until December 2003. However, total primary expenditure, excluding interest payments, remained below the indicative target, mainly because the level of capital expenditure financed on external resources fell short of projections.

10. **Significant progress was also made in the implementation of structural reforms.** All the structural benchmarks included in the SMP were observed, with the exception of the benchmark relating to adoption of the civil service ethics code, which was met one month late in early February 2004, and the benchmark pertaining to the completion of the action plan for restructuring the timber marketing board, SNBG.

11. **Preparation of the action plan for restructuring the SNBG** was not completed because the study conducted by the international consulting firm, KPMG, the conclusions of which were presented in December 2003, did not provide an adequate basis for redefining the company's role in the forestry sector. Consequently, the tender for a new study financed by the World Bank was launched in March 2004 on the basis of terms of reference agreed with that institution. Based on the recommendations of this new study, an action plan for restructuring the company will be defined by end-November 2004.

12. **Progress has been made in the privatization process.** A foreign investor has expressed interest in the rubber plantation company (HEVEGAB), for which a call for bids was issued in September 2003, and in the palm oil company (AGROGABON). In addition, five bidders were prequalified in October 2003 for the partial privatization of Gabon Telecom (sale of 35 percent of its capital with a management contract); the information memorandum was distributed to the five prequalified operators in early April 2004.

13. In 2003, the government pursued the process of price liberalization. In this context, the list of products subject to price surveillance was reduced in 2003, eliminating from the list vegetable oils, soap, mineral water, poultry, yogurts and paper products.

14. In view of the difficult economic and social environment, and to ensure the success of its adjustment program, in September 2003 the government concluded a social truce with social partners, which calls for wage moderation, a strengthening of the pension system, the

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<sup>18</sup> Under the SMP, a reduction in the treasury float above the program target gave rise to an upward adjustment of the net credit to government benchmark.

strengthening of the medical insurance system, the continuation of the regularization of the administrative and financial situation of civil servants, and tax reductions on basic necessities, in order to moderate prices. In conformity with these commitments, at end-2003 the government widened the list of products subject to the reduced VAT rate of 10 percent with a view to contributing to price moderation. The government is convinced that the best instrument to achieve price moderation for widely used consumer products is to ensure adequate competition in supply and distribution channels. Accordingly, it has rescinded the measure widening the price controls adopted in early April 2004, and is committed not to resort in the future to such measures nor to intensify the price controls existing at end-December 2003 (structural benchmark).

### III. PROGRAM FOR 2004–05

15. **The policies that Gabon intends to implement in order to meet the medium- and long-term challenges** are based on vigorous fiscal adjustment and in-depth structural reforms; the latter should make it possible to enhance competitiveness, diversify the economy, ensure sustained growth of non-oil GDP, and sustainably reduce poverty. As part of its fiscal adjustment effort, the government will endeavor to bolster non-oil revenue and reduce nonpriority expenditure in order to free sufficient resources for investment and for social and economic infrastructure, and to normalize its relations with its domestic and external creditors. Gabon has significant economic potential in many areas, including timber processing, tourism and ecotourism, fisheries, agro-industry, cash crops (coffee and cocoa), non-oil mining, and high value-added services. To tap this potential, structural reforms will be focused on factors that are crucial for attracting investment and improving the business climate, in particular good governance and transparency, the restructuring and privatization of public enterprises, the reduction of costs in the economy, and removal of the obstacles to the development of the private sector, with emphasis on improving the legal and regulatory framework. Support from the international community and development partners will be needed, both in the form of substantial external debt relief, given the sizable financing requirements, and through the mobilization of financial and technical resources directed to developing non-oil activities.

### IV. MACROECONOMIC OBJECTIVES AND POLICIES

16. **The government projects a non-oil GDP growth rate of 3 percent in 2004 and 3.5 percent in 2005.** In view of the continued expected decline in oil production, total real GDP is expected to grow by only 0.7 percent on average in 2004-05. Average annual inflation is to be contained at 2 percent, owing to implementation of prudent fiscal and monetary policies. With oil production expected to fall from 13.4 million tons in 2003 to 11.5 million tons in 2005, the overall balance of payments deficit is projected to widen from 1 percent of GDP in 2003 to 3.5 percent in 2005; the non-oil current account deficit is projected to increase from 12.6 percent of GDP in 2003 to 15.9 percent in 2004, because of a pick-up in imports, and a decline in forestry exports; the latter is expected to be temporary, with a pick-up projected in 2005-06. As a result of the increase in foreign direct investment related to privatization, the intensification of oil recovery activities, and the improved

business climate, gross private investment is projected to increase by 0.7 percentage point of GDP in 2004 and reach 21 percent of GDP in 2004-05.

#### A. Fiscal Policy

17. **Fiscal policy aims at achieving primary budget surpluses of 10.3 percent of GDP in 2004 and 8.6 percent in 2005 (down from 11.4 percent in 2003)**, thereby limiting the financing gap to the amount that can be covered by debt rescheduling by Paris Club and London Club creditors and the use of IMF resources. Thus, the non-oil primary budget deficit is to decline from 8.2 percent of non-oil GDP in 2003 to 7.5 percent in 2004 and 5.7 percent in 2005. The overall budget surplus will enable Gabon to be current on nonreschedulable external obligations, to reduce net domestic government borrowing substantially, and to increase deposits with the central bank, including those of the Fund for Future Generations (FFG). External budgetary financing will include disbursements under a structural adjustment loan from the African Development Bank (AfDB) currently under negotiation, and grants from the European Union, in addition to debt rescheduling being requested from bilateral official creditors and commercial banks.

18. **Oil revenue is projected at CFAF 508 billion (15 percent of GDP) in 2004**, based on an average Brent oil price of US\$30.0 per barrel, an exchange rate of CFAF 532.6 per U.S. dollar, and a production of 13.3 million tons. This projection includes the payment of back taxes pursuant to the tax audits of the oil companies (CFAF 11.8 billion) conducted in 2002 by an internationally recognized firm. The program also provides for a replenishment of the resources of the FFG, which declined substantially in 2003 owing to the repayment of external payments arrears: 10 percent of oil revenue will be deposited in the FFG, and the use of any oil revenues exceeding the program objectives will be according to the terms of the technical memorandum of understanding (TMU).

19. **Non-oil revenue is projected to increase by about 0.4 percentage point of non-oil GDP to 24.0 percent in 2004, and to rise further to 24.6 percent in 2005.** This increase is expected to originate from the following: (i) the effective implementation of the new forestry taxes (area tax and stumpage fee) adopted in the 2004 budget law; and (ii) the measures adopted in 2003 to strengthen tax administration, including the implementation of the action plan to eliminate tax exemptions other than those under the mining, forestry, and investment codes (structural benchmark), the completion of the tax audit of large enterprises initiated in 2002, and strengthened controls of taxpayers and collection of overdue tax obligations. Since January 2004, any business that has obtained exemptions without prior approval from the Ministry of Finance shall be subject to the normal tax code provisions. The government has also established a timetable for implementing the recommendations made by the November 2003 FAD technical assistance mission, including the establishment of a large enterprise tax unit (LTU) within the Directorate-General of Taxes (structural performance criterion) and the gradual transfer of the responsibility for tax collection from the treasury to the tax directorate. The weaknesses identified with respect to taxpayer registration, in particular the lack of a unique identifying number, will be corrected.

20. **Regarding forestry taxes, tax assessments will be performed by the tax directorate in collaboration with the forestry administration,** whose staff in the field are tasked with monitoring activities at work sites and classifying the timber harvested. Assessment of the stumpage fee will be based on the documentation certifying the footage cut, as approved by the forestry administration. A system to ensure the tracking of transported timber will be introduced during 2004.

21. **Primary expenditure is to decline by 1.3 percentage points of non-oil GDP between 2003 and 2005, to 30.5 percent.** The expenditure reduction will result mainly from cuts in the wage bill and outlays under the special funds. The program envisages the containment of other primary current expenditure, including security and sovereignty expenditure, and spending on public utility consumption. Current expenditure for education, health, and social assistance will be monitored closely, with quarterly floors established for 2004 that are based on the annual budgetary appropriations. Capital spending is projected to increase by 1.1 percent of non-oil GDP between 2003 and 2005, to 7.5 percent.

22. **The government has adopted a number of measures to cut the wage bill by CFAF 6 billion, so as to contain it in 2004 at CFAF 226 billion (6.6 percent of GDP), compared with CFAF 229 billion recorded in 2003 and a trend of CFAF 232 billion in 2004 in the absence of measures.** These include a reform of functional indemnities, a further reduction in the number of senior civil servants, including those in ministers' cabinet offices, a streamlining of the compensation paid to contractual staff, and rigorous compliance with the rules on retirement. Furthermore, steps will be taken to ensure that staff seconded to other agencies do not remain on the payroll. In the 2005 budget law, allocations for scholarships (1 percent of GDP) will be based on better prioritization and will be awarded in accordance with criteria better related to student merit and parents' ability to pay. In addition, university scholarships granted for study abroad will be reduced, due to the ongoing improvement of Gabon's national institutes of higher education. The government will request support from donors for technical assistance directed, in a first stage, toward improving the effectiveness of scholarships for study abroad. A study to that effect should be completed by end-October 2004 (structural benchmark), so that appropriate measures can be reflected in the 2005 budget. The savings generated in the scholarship area should provide room to increase budgetary appropriations for national educational institutions. In 2003, the budget allocation for civil service pensions proved inadequate. Accordingly, the government is contemplating a restructuring of the pension system, including the too generous special regimes.

23. **The program for 2004-05 envisages a further reduction in the float at the treasury and the clearance of the remaining domestic arrears, in consultation with the private creditors grouped in the Libreville Club.**<sup>19</sup> The government has begun to review

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<sup>19</sup> As regards the arrears of the Road Maintenance Fund, whose expenditures were not incorporated into the budget until 2004, repayment will be preceded by an audit of claims by the procurement directorate or by an independent audit firm.

the stock of outstanding wage arrears (back pay on promotions); this review will be completed by end-September 2004 (structural benchmark), so that arrangements can be made for the settlement of these arrears. A substantial improvement is also targeted in the government's position toward the banking system, in an amount equivalent to 1.4 percent of GDP.

24. **The government is committed to improving further fiscal management**, which will be formulated within a clearly defined strategy consistent with the country's priority development objectives; this strategy will be presented in the PRSP now being finalized, which will be updated annually. To this end, it is essential to ensure better integration between the current and capital budgets; the coordination of these budgets will be improved at the time of preparation of the budget law and the budget conferences. Multiyear programming will become an essential frame of reference, with the system of program authorizations and payment credits used as a genuine budget management tool. To ensure rapid implementation of the capital budget at the start of the year (structural benchmark), the detailed plans for the use of capital appropriations will be drawn up in the draft budget law, beginning with the 2005 law (structural benchmark); consistency between the appropriations and the sectoral strategies will strictly be ensured. This will make it possible to determine quarterly floors for the execution of priority capital expenditures in 2005.

25. **The government is aware that a medium-term expenditure framework (MTEF) that integrates current and capital expenditure, is essential for ensuring consistency between the budget and the development strategy.** However, in view of the complexity of this task, the government plans to begin in 2005 with a pilot experiment that could cover several priority sectors (education, health, and public works). The MTEF will adopt a more analytical presentation of the budget structure by program/projects, which will be tracked in accordance with the timetable for budget preparation, and based on a rigorous assessment of costs. This experiment will be used as the framework for revising Organic Law No. 4/85 on the budget, which envisages the introduction of program-based budgets.

26. **Considerable efforts have been made to adapt the budgetary nomenclature to international standards, and the functional classification system is expected to become operational in the months ahead.** In this connection, the shared expenditure items (water, electricity, and telephone) will be broken down by ministerial department.

27. **The provisions of the laws on government accounting and the budget laws will be rigorously observed.** This implies the following: (i) reintegration of the special accounts into the budget law beginning in 2005 (structural benchmark); (ii) observance of the limits specified for the complementary period for completing payments on the previous year's budgetary expenditures; (iii) an increased effort to establish the monthly balances of the treasury accounts promptly (two months after the end of the period); and (iv) the rapid regularization of the treasury's suspense accounts and the accounts that present balances anomalies.

28. **An in-depth reassessment of budgetary procedures will be conducted in 2004, with assistance from development partners, with a view to eliminating the redundant ex ante budgetary controls (appropriation administrators and the directorates-general of the budget, financial control, and the treasury), as these burden budgetary management.** The assessment will also aim to further developing ex post controls and internal and external audits (including by the Auditor General's Office, Cour des comptes). This process will be based upon an in-depth diagnosis of the expenditure circuit and on a public expenditure review scheduled for the second half of 2004 with World Bank assistance. Taken together, these actions will provide the basis for revising Law No. 5/85, establishing the general regulations for government accounting.

29. Significant progress has been made in developing a high-performance integrated information system for the public finances management. In particular, the system makes it possible to monitor the administrative and accounting phases of revenue and expenditure effectively. The computerized system for the treasury's accounts will be replaced by a more updated one, which is expected to become operational in 2005.

30. **The government is also committed to improving the financial position of public agencies and local governments, which have become increasingly dependent on central government resources.** In this context, the government plans to strengthen the pension system through (i) the timely payment of its obligations to the National Social Security Fund (CNSS), (ii) the rapid conclusion of the CNSS's restructuring plan, and (iii) a restructuring of the National Social Guarantee Fund (CNGS). The CNSS reform is being pursued with assistance from the International Labor Office (ILO) and the World Bank. It entails (i) improving management by strengthening decision-making procedures and accountability toward social partners; and (ii) completing the computerization of all files of those entitled to benefits. To improve the quality of health care and reduce the management costs of the three CNSS hospitals, these have been placed under private management effective March 1, 2004. In addition, the actuarial study on the pension system conducted by the ILO is scheduled to be completed by end-2004. This study will make recommendations aimed at ensuring the equilibrium of the old-age pension system. Revision of the social security code will provide a formal framework for strengthening the social security system. As regards the CNGS, its own resources and budgetary transfers cover less than 50 percent of administrative expenses and benefit costs. In order to increase the CNGS's own resources, Law No. 10/82 of January 24, 1983 will be revised to raise contribution rates to appropriate levels. In addition, the transfers to the CNGS envisaged under the 2004 budget (CFAF 1.2 billion) will be revised upward under the supplementary budget law for 2004. This measure will be accompanied, however, by a plan for reducing the administrative costs of the CNGS from 18 percent to about 10 percent of total expenditure. A performance contract aimed at reducing operating costs and improving services will be concluded with the CNGS before end-September 2004 (structural benchmark).

31. **The government has resolved to improve the financial position of local governments, which are facing serious difficulties.** To increase their revenue, the government is strengthening the collection of property taxes using property surveys that will

permit the proper recording of property and the issuance of tax assessments. The collection of other local taxes, such as the business license tax, will also be strengthened; the tax base for property taxes in Libreville and Port-Gentil will be finalized by end-December 2004 (structural benchmark). An interministerial committee has been established with the participation of the Senate and the Auditor General's Office to make recommendations on local authorities' finances. The report will be finalized and presented to the government before end-October 2004 (structural benchmark), so that a set of measures can be included in the 2005 budget law, but provisional data should be available already by end-August. Data on local authorities' finances (revenue, expenditure, deficit and financing) will be collected regularly and monitored on a quarterly basis by the treasury. Measures have been taken by the treasury to ensure that ceilings on local authorities' expenditures are observed through appropriate cost-cutting measures, including containment of the number of employees and the wage bill.

32. **With regard to civil service reform, the government will continue its ongoing efforts to improve the effectiveness of the civil service**, in particular by streamlining its structures and containing costs. The draft laws organizing government services and reforming the general civil service regulations are expected to be approved by parliament in 2004. The latter provides for a merit-based promotion system, streamlines the compensation system, and is expected to yield substantial savings on the 2005 wage bill. The new civil service organization charts will be completed before end-December 2004, and the civil service and payroll databases are to be harmonized before end-2004 (structural benchmark), based on the computerized civil service management system (ANITA) being developed.

## **B. Monetary and Financial Sector Policies**

### **Monetary policy**

33. **The monetary authorities will continue to pursue monetary policy at the regional level in a manner consistent with the fixed exchange rate regime.** The money supply for Gabon is projected to grow by 5.3 percent on average during the 2004–05 period, in line with nominal non-oil GDP growth. Net foreign assets are expected to increase, primarily owing to foreign direct investment. At the same time, fiscal consolidation will allow a reduction of net bank credit to the government. Bank credit to the private sector is expected to expand by about 7.5 percent per year on average after the decline in 2003, in line with the objective for nominal GDP growth in the non-oil sector, as recovery is anticipated in public works and in investment in the forestry, telecommunications, and water and power sectors.

### **Reform of the financial sector**

34. **Strengthening the financial sector and maintaining its soundness are essential components of the government's medium-term program.** The Financial Sector Assessment Program (FSAP) identified the main structural weaknesses and risks in the Gabonese financial sector as the following: (i) insufficient bank portfolio diversification; (ii)

high exposure to government suppliers and public enterprises; and (iii) underdevelopment of nonbank financial institutions and microfinance. In this context, the regional banking commission (COBAC) has strengthened the regulations relating to surveillance of the foreign exchange position, provisioning for bad debts, and risk coverage and diversification by credit institutions. COBAC has also increased the number of inspections in recent months. The banks' internal audit function is being strengthened in accordance with COBAC recommendations.

35. **In the area of microfinance, a Central African Economic and Monetary Community (CEMAC) regulation establishing the operating conditions for microfinance institutions was adopted in April 2002.** In this context, the Development and Expansion Fund (FODEX) is facilitating the creation of a network of mutual savings and loan institutions in rural areas, which could play an important role in revitalizing activity in the agricultural sector. Ultimately, it is envisaged that FODEX might become a structure for refinancing the microfinance networks. Furthermore, the government is aware that revitalizing economic activity requires financing structures, such as savings banks and mutual credit associations, that would enable small savers to obtain loans to launch new small-scale activities. To this end, it will request technical and financial assistance from donors. It is envisaged that credit lines for promoting small and medium-sized enterprises could be opened with local banks, using AfDB resources. Studies to this end are in progress. The government is also considering promoting housing finance by the creation of a system of housing loans related to savings (*épargne-logements*), and improving efficiency in the issuance of property titles.

36. **A CEMAC regulation on money laundering and combating the financing of terrorism was recently adopted,** and national financial intelligence units will be established shortly to implement the provisions of the regulation. Moreover, in accordance with the recommendations of the Report on the Observance of Standards and Codes (ROSC) and the safeguards assessment of the regional central bank, measures to improve the BEAC accounting system have been adopted to bring it into compliance with international standards; the internal audit system is also being strengthened. Measures have also been taken to modernize the interbank settlements system within the CEMAC.

37. **The authorities are taking measures to strengthen the extensive network of the postal checking and saving system,** which can play an important role in mobilizing savings. This is part of the restructuring of the post office system after telecommunications operations were spun off in 2001.

38. **The Central African Stock Exchange (BVMAC) is being created, and CFAF 1.779 billion in capital has already been subscribed.** The stock exchange will support the mobilization of savings and the financing of private sector investment. It is expected to become operational in 2004.

## V. FOREIGN TRADE POLICY—BALANCE OF PAYMENTS AND DEBT SUSTAINABILITY OUTLOOK

39. **With regard to trade policy, the government supports the efforts being undertaken within the CEMAC to reduce the maximum rate under the common external tariff (CET) to 20 percent.** Moreover, the government is determined to eliminate the import surcharges rapidly. The surcharges on lubricants and mineral water were eliminated in late December 2003, and the only import surcharges still in place are on poultry products and cigarettes; these will be eliminated by end-December 2004 (structural benchmark). The quantitative restrictions on sugar imports will be eliminated by end-2004, in the context of similar measures to be adopted in the other CEMAC countries. However, in view of the need to provide some degree of temporary protection for sugar production in the CEMAC area in response to the subsidies provided in the industrial countries, the government will ask that the CEMAC submit a request to the World Trade Organization (WTO) to authorize temporary protection of the sugar sector at the regional level.

40. **As indicated in paragraph 14, the overall balance of payments deficit is expected to increase in 2004 and 2005,** reflecting the decline in petroleum exports and the increase in debt service. In view of the magnitude of the arrears on the external debt that must be settled (CFAF 320 billion), the financing gap for 2004 is equivalent to 14 percent of GDP. The projected financing gap for 2005 is equivalent to 5 percent of GDP. To cover these gaps, the government plans to request, in addition to Fund support, a rescheduling of the debt to Paris Club creditors and the commercial banks, including the arrears, which amount to approximately CFAF 470 billion in 2004 and CFAF 150 billion in 2005. In addition, the AfDB is finalizing a structural adjustment credit, of which CFAF 45 billion is to be disbursed in 2004. Budgetary support from the European Union is projected to amount to CFAF 2.5 billion in 2004.

41. **In cooperation with Fund staff, the government has updated the debt sustainability scenario.** The latter shows that the public debt will peak in late 2004 at 68 percent of GDP but will decline in subsequent years, as the primary budget surplus will be used to reduce domestic debt in 2004-06. The ratio of external debt to GDP is expected to increase from 55.9 percent at end-2003 to 61.6 percent at end-2006, followed by a reduction to less than 50 percent after 2012. The debt-service burden is projected to increase from 17.2 percent of export receipts in 2004 to 21.2 percent in 2006; in terms of budgetary revenue, debt service is projected to increase from 32.4 percent in 2004 to 35.5 percent in 2006.

## VI. STRUCTURAL REFORMS

42. **The government is convinced that wide-ranging structural reforms are essential to facilitate diversification of the economy and reduce poverty.** In particular, it will be necessary to promote the development of small and medium-sized enterprises by eliminating administrative and regulatory barriers, strengthening the judicial system, and markedly improving the business climate. To this end, the government is counting on support from donors, including the World Bank, the AfDB, and the European Union.

### A. Forestry Sector

43. **In the forestry sector, a number of important measures have been implemented in 2004**, in keeping with the undertakings set forth in the sector development policy letter prepared in March 2004 in cooperation with the World Bank and other donors. The key measures include the following: (i) preparation in January 2004 of a list of all forestry concessions, which was provided to the Directorate-General of Taxes so as to ensure that all concession holders pay the area tax; (ii) a rigorous follow-up of tax payments by concession holders and termination of noncompliant concessions; (iii) finalization of the national forestry concession map by end-2004; (iv) a prohibition on offering new concessions outside the auction system; (v) the grouping of small concession holders, and the search for financing and the mobilization of resources to enable them to develop sustainable forestry management plans; (vi) the launching of a new study on the role of the SNBG, to be completed by October 2004; and (vii) adoption by end-November 2004 of a time-bound action plan to restructure the SNBG in accordance with the study's recommendations (performance criterion).

44. Given the drop in purchases of logs by Asian customers since November 2003, the need to lower prices for customers who had to cope with a doubling of freight costs, and the appreciation of the CFA franc against the U.S. dollar, a number of steps were taken to reduce the SNBG's operating costs in early 2004, based on decisions by its board of directors of December 19, 2003. These consisted of a staff reduction on the basis of voluntary departures and reductions in other operating expenses, and made it possible to reduce the SNBG's margin on exports of *okoumé* by 5 percent, assuming a stagnation of export volumes at 950,000 cubic meters in 2004. The port price (*prix plage*) paid to forestry producers was also cut by 6 percent effective January 1, 2004. These reductions made it possible to lower the price for the final customer and thereby stimulate sales. Since March 2004, there has been a rebound in exports to the Asian market, but it is necessary to continue holding down expenses throughout the sector, including the SNBG's margin, given the persistence of relatively low export prices and the high price of ocean-going freight. To this end, the SNBG is rigorously carrying out the measures adopted by the latest board of directors' meeting, and a report on their implementation has been submitted to the board meeting held at end-April 2004. Furthermore, the study of the timber sector financed by the World Bank and the French Development Agency will examine ways to enhance the effectiveness of the other parties involved in the sector, including port and storage services.

### B. Public Enterprise Restructuring and Privatization

45. **The government has resolved to complete the public enterprise privatization program now under way with technical assistance from the World Bank.** In the agro-food sector, negotiations with a buyer for the sale of the palm oil company (AGROGABON) and the rubber production enterprise (HEVEGAB) are well advanced, and are expected to be concluded before end-April 2004. The sale contract includes a commitment on a sizable investment plan, thus contributing to a recovery in these sectors. As regards Gabon Telecom, the final offers from the prequalified buyers are expected to be made by end-May 2004, and the successful bidder is to be selected by end-September 2004 (structural benchmark). The

majority of its capital will be opened during a second stage, when market conditions have improved.

46. **The government has retained the services of a consulting firm for the restructuring of the postal service, in agreement with the AfDB.** The study was initiated on March 15, 2004 and is expected to be completed by end-August 2004. The aim of the study is to redefine the missions of the postal service (mail and parcel delivery), so that the postal operator renders quality services, provides an adequate universal service level, and improves its financial position. These measures will be part of a medium-term development strategy. The consultants will also assess the possibilities for expanding the postal checking and postal savings account network.

47. **The restructuring of the national air carrier (Air Gabon) is continuing in accordance with an operational and financial plan for the 2004-06 period.** Important measures have been taken, beginning in 2003, to strengthen the company's administrative and financial management, including the restructuring of the network, renegotiation of lease contracts, development of customer loyalty, and improvement of the invoicing and collection system. These measures were reinforced by the appointment of a new financial director in late 2003, imparting a new impetus to the collection of claims and to cost cutting. These efforts made it possible to reduce the operating deficit before depreciation in 2003 and should allow the achievement of an operating surplus before depreciation in 2004 (structural benchmark). Quarterly financial reports will be communicated to the Ministry of Finance, which will ensure a close monitoring of the implementation of the company's rehabilitation. The government regards these measures as a crucial stage in the privatization of the company. As regards the railroad, the contract for the management and operation of rail activity awarded to SETRAG (Société d'Exploitation du Transgabonais) in 2003 was renewed on February 1, 2004 for an additional 18 months, pending suitable conditions for offering it on a concessions basis again.

### C. Private Sector Development

48. **The government is convinced that improving the business climate, as well as the legal and regulatory framework, is essential for stimulating the growth of the non-oil sector.** In the weeks ahead, the Foreign Investment Advisory Service of the International Finance Corporation (IFC) will conduct a diagnostic study on the impediments to private sector development. This study will be followed by other specific studies on the tax incentives system, the legal and regulatory framework, and the role of the financial sector. Implementation of the recommendations of the study, scheduled to be completed in 2005, will constitute a key component of a possible World Bank Private Sector Development/Diversification project in the context of its Country Assistance Strategy (CAS). Efforts are being made to improve the operation of the one-stop shop for investors (the private investment promotion agency, APIP), in particular by ensuring the adequate staffing of the office of the clerk in the Court of First Instance in Libreville. The APIP, whose budget has been increased, will prepare quarterly reports on the number of newly created firms and on the status of their operations. To promote employment, vocational training centers will be

strengthened with donor support in order to address the significant unmet demand for qualified staff. These centers should provide training that is more focused on meeting business demands.

49. **Moreover, the government is continuing to improve the functioning of the judicial system and legal environment, including by making the property registry (cadastre) more efficient and issuing land tenure titles.** In recent years, efforts have been focused on rehabilitating courthouses, computerizing the clerk's office at the Commercial Tribunal in Libreville, and training and improved working conditions for judges. The Uniform Acts of the Organization for the Harmonization of Business Law in Africa (OHADA), in particular as regards commercial law, company law, summary debt collection procedures, and arbitration, have helped clarify the legal framework for business. During the period of the program, judicial training efforts will be intensified and mechanisms established for facilitating recourse to arbitration as a means of resolving business disputes. In order to speed up the registration of real property, the cadastre will be reorganized in coordination with the Directorate-General of Taxation.

50. **The government will continue to accord priority to the development of sectoral programs in the infrastructure area, which are essential for supporting the expansion of economic activity.** In this context, generalized application of the procedures followed in the World Bank's PROTOTIPPE project for public investment execution will make it possible not only to improve the effectiveness of public expenditure, but also to support the development of small and medium-sized enterprises. The government is counting on donor support for continuing the PAPSUT (Priority Action Program for the Urban Sector and Transportation), which is aimed at improving the road network and rehabilitating ports, with a view to reducing factor costs. In addition, the placement under private management, since April 1, 2004, of a portion of the activities of the ports of Owendo and Port Gentil as part of a 15-year concession arrangement should enhance the efficiency of port operations and improve external competitiveness. Similarly, the modernization of telecommunications services will be essential to private sector development.

51. **To improve the regulatory framework for the private sector, the government is envisaging the adoption of the implementing modalities for the mining code by end-2004 (structural benchmark).** The government will endeavor to liberalize domestic trade by improving competition and market access; to that end it will take into account the recommendations that will be made by the study on the investment climate, to be conducted soon by the Foreign Investment Advisory Service of the International Finance Corporation. The new Directorate-General of Competition and Consumption, which replaced the Directorate-General of Price Controls in 2003, will be responsible for promoting respect for the free play of competition and the defense of consumers.

#### **D. Good governance**

52. **The National Commission Against Illicit Enrichment (CNCEI) has already begun its prevention work by organizing consciousness-raising workshops with**

**financial administrations and other spending agencies.** It decided to organize its activities under two separate subcommittees, the Prevention and Education Subcommittee and the Investigation Subcommittee, in accordance with the recommendations of IMF- financed experts. A first activity report will be submitted by end-December 2004 (structural benchmark). The budget law for 2005 will include adequate provisions for the operation of the CNCEI (structural benchmark). The Directorate-General of Public Procurement, established in 2003, has begun the audit of the Road Maintenance Fund and will audit the execution of the works carried out under the capital budget relating to the Independence Day celebrations. In addition, it is responsible for auditing the services delivered under government contracts for amounts in excess of CFAF 30 million. The government plans to adhere to the Extractive Industries Transparency Initiative, and to this end contacts are in progress with the international community to finalize the adherence modalities.

### **E. PRSP Preparation Process**

53. The government intends to complete the preparation of a final PRSP in early 2005, with the assistance of donors, and the World Bank and International Monetary Fund plan to conduct a joint assessment of this paper. The paper will draw on the results of a participatory survey on the perception of poverty (EPP) conducted in 2003, the household expenditure survey of 2003, and the General Population and Housing Census (RGPH) recently completed, as well as on the national quantitative survey on poverty, to be carried out from March to July 2004 with donor support. Moreover, donors will help the government conduct a participatory survey on poverty, to be completed by end-September 2004. The major objectives pursued in the poverty reduction strategy are focused around seven priority areas: (i) reduce unemployment; (ii) halt the rural economic decline; (iii) improve access to basic social services; (iv) revitalize the social safety nets; (v) ensure that the poor have better living conditions; (vi) prepare a gender-focused program; and (vii) introduce integrated and efficient governance. The authorities are preparing master plans for the sectors most involved in poverty reduction (education, health, housing, and fighting against unemployment), which will include a quantification of the costs of the related spending programs. These costs will have to be compatible with the medium-term budget framework, and will be used in preparing the 2005 budget law, as well as the public investment program and medium-term expenditure framework covering the 2005-07 period. The findings of the quantitative survey on poverty will be used to update the social indicators, which will be revised annually through additional surveys. The monitoring of PRSP implementation, and its annual assessment and updating, will be carried out by a steering committee to be created during 2004.

### **VII. PROGRAM MONITORING**

54. **Program implementation will be monitored in quarterly reviews with the Fund and by using quantitative and structural performance criteria and benchmarks.** Quarterly quantitative performance criteria and indicative targets for 2004 are presented in Table 1, while structural criteria and benchmarks are in Table 2. Table 2 also includes prior actions.

Table 1. Gabon: Quantitative Performance Criteria and Indicative Targets Under the Stand-By Arrangement, 2003-04  
(In billions of CFA francs; cumulative flows from January 1st) 1/

	2003 Dec. Est.	2004		
		Mar. Target	Jun. Program	Dec. Program
Performance criteria				
Ceiling on the net claims of the banking system on the central government 2/	15.8	6.2	-27.0	-35.3
Adjusted target 2/	...			
Ceiling on the contracting or guaranteeing of new nonconcessional external debt with maturity of over one year by the central government 3/	8.7	65.0	80.0	96.0
Ceiling on outstanding stock of new nonconcessional external debt with original maturity of one year or less owed or guaranteed by the central government 4/	0.0	0.0	0.0	0.0
Ceiling on the accumulation of external payments arrears by the central government 5/	0.0	0.0	0.0	0.0
Stock of arrears on domestic debt of the central government 6/	21.2	14.2	13.1	7.3
Floor on the primary fiscal balance of the central government, excluding grants and foreign-financed investment (on a payments order basis) 7/	410.3	84.1	180.4	248.2
Adjusted target 7/	...			
Indicative targets				
Floor on non-oil central government revenue	478.9	108.5	245.7	364.7
Ceiling on the central government wage bill on a payments order basis	229.0	58.8	111.9	168.6
Ceiling on total noninterest domestic expenditure of the central government, on a payments order basis 8/	638.8	159.1	312.7	473.7
Floor on current expenditure for the sectors of education, health, and social assistance.	...	7.1	15.4	23.8
Floor on the net reduction of unpaid payments orders at the treasury 9/	-74.9	-8.9	-16.3	-28.8
Memorandum items:				
Nonproject external financing disbursements (excluding IMF)	1.2	1.2	3.2	50.9
External debt service due (excluding IMF)	309.7	84.7	146.3	253.6
Domestic debt service due	85.7	19.3	38.5	59.6
Oil revenue	570.2	134.7	247.3	357.3
Rescheduling of external debt 10/	0.0	41.8	391.4	436.7
Privatization proceeds	1.0	0.0	1.4	10.0

Sources: Gabonese authorities; and staff estimates and projections.

1/ Indicative targets for March 2004. Targets for June, September, and December 2004 are performance criteria under the Stand-By Arrangement.

2/ The performance criterion will be adjusted upward/downward for any lower/higher oil revenues, larger/lower payment of external debt service (net of nonproject external financing disbursements), larger/smaller net reductions in domestic arrears, and smaller/larger privatization proceeds, relative to program targets. The performance criterion will be revised upward for higher-than-programmed reduction in the float up to a limit of CFAF 13 billion. The performance criterion will be adjusted downward for unprogrammed rescheduling/deferment on domestic debt in excess of CFAF 13 billion.

3/ This performance criterion applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted by the IMF Executive Board on August 24, 2000, but also to commitments contracted or guaranteed for which value has not been received. Excluded from this performance criterion are rescheduling arrangements and purchases from the Fund. For purposes of this performance criterion, the term "nonconcessional" means that the debt has a grant element of less than 35 percent calculated on the basis of currency-specific discount rates that are based on the OECD commercial interest reference rates (CIRRs).

4/ Excluded from this performance criterion are rescheduling arrangements, purchases from the Fund, and normal import-related credits.

5/ The nonaccumulation of new external payments arrears will constitute a continuous performance criterion.

6/ As defined in paragraph 10 of the technical memorandum of understanding (TMU). The ceiling will be adjusted downward for unprogrammed rescheduling/deferrals.

7/ The performance criterion on the primary fiscal balance will be adjusted upward/downward for any higher/lower-than-programmed oil revenue.

8/ Noninterest spending excluding foreign-financed investment.

9/ Including the reduction of arrears on the wage bill and the payment of compensation for social violence. Excess oil revenue, or unprogrammed rescheduling/deferment on domestic debt, can be used for additional reduction of the float, up to CFAF 13 billion.

10/ These amounts represent end-2003 stock of arrears and the obligations falling due in 2004 that could be rescheduled.

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

Measures	Implementation Period
<b>Prior actions</b>	
Budgetary execution through end-March 2004 in line with program targets, including the non accumulation of non-reschedulable external arrears.	
Adoption by Council of Ministers of the letter of development policy for the forestry sector, prepared in consultation with the World Bank, including a priority agenda for 2004-05 (MEFP, para. 43).	
Selection of consultant to conduct the study to restructure the timber marketing board SNBG and redefine its role (MEFP, paras. 11 and 43).	
Transmittal to Fund staff of the report by SNBG on the implementation of the cost-cutting measures adopted by the company's board on December 19, 2003 (MEFP, para. 44).	
Entry into effect of the set of measures to reduce the wage bill, agreed during the March 2004 Fund staff mission (MEFP, para. 22).	
Abrogation of the Prime Minister's decree of April 2, 2004 widening the list of products under the price surveillance regime (MEFP, para. 14).	
<b>Structural performance criteria</b>	
<i>Fiscal policy/Development of the private sector</i>	
Adoption of a decree establishing the large enterprise tax unit within the tax administration department, which covers all enterprises with annual turnover over CFAF 1 billion (MEFP, para. 19).	End-September 2004
<i>Forestry Sector</i>	
Adoption of time-bound action plan to streamline SNBG, on the basis of World Bank financed study (MEFP, para. 43).	End-November 2004
<b>Structural benchmarks</b>	
<i>Civil service reform</i>	
Harmonization of the civil service and payroll rosters, based on the computerized civil service management system (ANITA) (MEFP,	End-December 2004

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

Measures	Implementation Period
para. 32). Adoption of implementing decrees on the new wage structure and promotion system on the basis of the new law on the general civil service statute (MEFP, para. 32).	End-December 2004
<i>Fiscal policy</i>	
Integration in the 2005 government budget of all special funds (MEFP, para. 27).	End-December 2004
No granting of exemptions to any company beyond those already provided for under the mining, forestry, and investment code, and no renewal of existing exemptions (MEFP, para. 19).	Continuous benchmark
Completion of assessment of stock of wage arrears (MEFP, para. 23).	End-September 2004
Finalization of taxable base for local real estate taxation for Libreville and Port-Gentil (MEFP, para. 31).	End-December 2004
Establishment of detailed budgetary appropriations for the investment expenditures, according to the budgetary classification, in the 2005 Budget Law submitted to parliament (MEFP, para. 24)	End-December 2004
Entry into effectiveness of budgetary credits for the 2005 budget before end- February 2005 (MEFP, para. 24).	End-February 2005
Establishment of a performance contract with the National Social Guarantee Fund, CNGS (MEFP, para. 30).	End-September 2004
Issuance of interministerial report on local authorities' finances (MEFP, para. 31).	End-October 2004
Preparation of a study with recommendations to prioritize the university scholarship system (MEFP, para. 22).	End-October 2004
<i>Good governance</i>	
Preparation of the first report on the operations of the Commission Against Illicit Enrichment (MEFP, para. 52).	End-December 2004
Inclusion in the 2005 budget of an adequate operational budget for the National Commission Against Illicit Enrichment (MEFP, para. 52)	End-December 2004
<i>Development of the private sector</i>	
Selection of the successful bidder for Gabon Télécom (MEFP, para. 45).	End-September 2004

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

Measures	Implementation Period
Adoption of the implementation regulations for the mining code (MEFP, para. 51).	End-December 2004
No recourse to price control measures, and no widening of the list of products subject to the price surveillance regime at end-December 2003 (MEFP, para. 14).	Continuous benchmark
<i>Public enterprises</i>	
Achievement of a surplus in 2004 in the operational results of Air Gabon, before depreciation (MEFP, para. 47).	End December 2004
<i>Trade reform</i>	
Removal of import surcharges on poultry and cigarettes (MEFP, para. 39).	End-December 2004

## GABON

### Technical Memorandum of Understanding

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

#### A. Monitoring of Program Implementation

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

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

##### Quantitative performance criteria and indicative targets

3. The quantitative performance criteria are specified in Table 1 of the MEFP attached to the letter of May 6, 2004. The quantitative performance criteria are the following:

- a ceiling on the net claims of the banking system on the central government;
- a ceiling on new nonconcessional external debt with original maturity of more than one year contracted or guaranteed by the central government;
- a ceiling on the outstanding stock of new nonconcessional external debt with original maturity of up to (and including) one year owed or guaranteed by the central government;
- a zero limit on the accumulation of external payments arrears by the central government (a continuous performance criterion);
- a ceiling on the stock of domestic payments arrears of the central government (as defined in paragraph 10) ; and
- a floor on the primary fiscal balance of the central government, on a payments order basis (excluding foreign-financed investment, FINEX, cumulative from January 1<sup>st</sup>).

4. The program includes adjusters for the quantitative performance criteria as specified in paragraphs 20-24 below and in footnotes 2, 6 and 7 of Table 1 of the MEFP.

5. The quantitative indicative targets (cumulative from January 1<sup>st</sup>) are as follows:

- a floor on central government non-oil revenue;
- a ceiling on the total central government wage bill, on a payments order basis;
- a ceiling on total noninterest expenditure, on a payments order basis;
- a floor on current expenditure for the sectors of education, health and social assistance, as defined in paragraph 17; and
- a floor on the reduction of the float at the treasury, wage arrears (rappels) and obligations resulting from political violence.

#### **Definitions and computation**

6. The outstanding amount of the net claims of the banking system on the central government is measured in accordance with the accounting practice at the central bank, the BEAC, along the lines of the IMF format, excluding deposits of the postal checking account system.<sup>20</sup> As of December 31, 2003, this outstanding amount was CFAF 231.9 billion, and its breakdown was as follows:

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

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<sup>20</sup> The deposits of the postal checking account system are excluded since they are not at the disposal of the treasury.

7. The **Account for the Fund for Future Generations (AFFG)** at the BEAC will be fed in 2004 by 10 percent of oil revenue and oil revenues in excess of the programmed levels (based on program baseline assumptions detailed in para. 26). The use of AFFG resources is discussed in paragraphs 20-21. The **AFFG** is part of the net claims of the banking system on the central government.

8. The performance criteria on nonconcessional external debt are ceilings on **new nonconcessional external debt**. The performance criterion on the contracting and guaranteeing of new nonconcessional debt with maturity over one year by the central government applies not only to debt as defined in point 9 of the *Guidelines on Performance Criteria with Respect to Foreign Debt*, adopted by the IMF on August 24, 2000, but also to commitments contracted or guaranteed for which no value has yet been received. Excluded from this performance criterion are rescheduling arrangements and purchases from the IMF. The performance criterion on the **outstanding stock of nonconcessional external debt,<sup>21</sup> with an original maturity of up to one year** (one year included) excludes rescheduling arrangements, purchases from the IMF, and normal import-related credits. The concessionality of debts will be calculated on the basis of the reference interest rates for the specific currencies of denomination used, as established by the Organization for Economic Cooperation and Development (OECD). A debt is deemed to be on concessional terms if, at the time of the initial disbursement date, the ratio between the present value of the loan calculated on the basis of the reference interest rates, on the one hand, and the face (nominal) value of the loan, on the other hand, is less than 65 percent (i.e., a grant element of at least 35 percent).

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

10. The **stock of domestic payments arrears of the central government** corresponds to the stock of payments arrears on: (i) interests on treasury debt, securitized commercial agreement, “other” debts, and bank debt; (ii) the principal on securitized commercial debt agreements and “other” debts.<sup>22</sup> At end-December 2003, the stock of domestic payments

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<sup>21</sup> The term “debt” has the meaning set forth in point 9 of the *Guidelines on Performance Criteria with Respect to Foreign Debt* (Decision number 12274-(00/85) August 24, 2000).

<sup>22</sup> The nonbank domestic debt includes the outstanding amounts of (a) securitized commercial agreements as validated by the Ministry of Economy, Finance, Budget, and Privatization as at end-December 2003; (b) the debt of the treasury; and (c) “other” debts,

(continued)

arrears amounted to CFAF 21.2 billion, of which CFAF 4.6 billion on interests and CFAF 16.6 billion on principal.

11. **The treasury float** consists of the “payment orders at the treasury” and the “other treasury float.”<sup>23</sup> The “payment orders at the treasury” corresponds to the difference between the cumulative payment orders (*ordonnancements*)<sup>24</sup> and the cumulative actual payments (checks encashed—cash basis). At end-December 2003, the central government’s domestic payments arrears amounted to CFAF 94 billion, comprising CFAF 84,7 billion in outstanding treasury float and CFAF 9.3 billion in “other treasury float.” The net reduction of the treasury float is defined as the reduction in the float existing at end-2003, excluding the accumulation of new float during 2004.<sup>25</sup>

12. **Total central government revenue** is measured on a cash basis and includes offsetting revenue and expenditure operations, including private sector tax obligations offset against central government obligations to the private sector. Tax receipts are specified in the attached Table 1 on central government financial operations (*Tableau des opérations financières de l’Etat–TOFE*), including all earmarked revenues (Road Fund and special funds).

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

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

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consisting of amounts due to the SEEG, CNSS, Gabon Telecom, Gabon Poste and Air Gabon’s supplier debt taken over by the government in 2001/2002.

<sup>23</sup> The “other treasury float” includes the accounts on “subsidies,” “consignments,” “accounting agencies,” including “transfers between accounting offices” related to budgetary operations, and “installments to be allocated.”

<sup>24</sup> As defined below in paragraph 13.

<sup>25</sup> Under the program, payments for wage arrears (“*rappels*”) and compensation for political violence are considered as a reduction in the float at the treasury.

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

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

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

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

19. The financial operations specified in the attached Table 1 on central government financial operations (*Tableau des opérations financières de l’Etat–TOFE*) relating to treasury correspondents (*correspondants du Trésor*), local governments (*collectivités locales*), and other treasury operations correspond to the change from period to period in the balance of these accounts. The Government will provide information on the balance of all these accounts on a monthly basis to the IMF.

#### **Adjustments to quantitative performance criteria**

20. A specific contingency mechanism for oil revenue is established for 2004-05, given the importance of oil for the Gabonese economy and the uncertainties regarding oil prices and output. If oil revenue is above the baseline projections in a given quarter, the surplus will be deposited in the Account of the Fund for Future Generations with the BEAC, with a corresponding downward adjustment in the ceiling on net credit from the banking system to the central government and an upward adjustment in the floor for the primary fiscal balance. If oil revenue in CFA franc terms is lower than programmed (because actual oil prices, the exchange rate and/or output are lower than projected in the baseline scenario), the shortfall could be offset by additional net bank credit—with an upward adjustment in the ceiling on net credit from the banking system to the central government, and a downward adjustment in the floor on the primary fiscal balance. The cumulative ceilings to the adjustor are CFAF 17.0 billion for end-June, CFAF 25.5 billion for end-September, and CFAF 34.0

billion (about 1 percent of GDP) for end-December 2004. If the oil revenue shortfall exceeds the maximum adjustor, the quarterly fiscal targets will be reassessed in consultation with Fund staff.

21. The Government will be able to use part of the excess oil revenue (up to a cumulative maximum of CFAF 13 billion (0.3 percent of GDP)) to reduce the float at the treasury, over the programmed amount.<sup>26</sup>

22. The program also includes (downward/upward) adjusters for the benchmarks on net credit from the banking system to the central government for (i) lower/higher-than programmed external debt service effectively paid<sup>27</sup> (net of nonproject external financing disbursements) ; (ii) lower/higher-than-programmed net reduction of domestic arrears; and (iii) higher-than-programmed net reduction in the float at the treasury during 2004. The upward adjustment in the performance criterion on net bank credit to the central government under (iii) is limited at CFAF 13 billion.

23. In case of a rescheduling/deferment is obtained on current maturities on domestic debt managed by the Debt department (securitized commercial agreements and “other” debt agreements), the resulting margin could be used to reduce additional float at the treasury, up to a limit of CFAF 13 billion above program targets. The unused margin will be deposited at the BEAC.

24. The program also includes a symmetric (downward/upward) adjuster for the net bank credit to the central government for privatization proceeds higher/lower than projected in the program. The program’s assumptions related to oil revenues, external and domestic debt service, disbursements on external nonproject financing, expected external debt rescheduling, and privatization proceeds are indicated in Table 1 of the Memorandum.

### **C. Structural Performance Criteria and Benchmarks**

25. The structural performance criteria and benchmarks are specified in Table 2 of the MEFP attached to the letter of May 6, 2004.

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<sup>26</sup> Payments for wage arrears (“*rappels*”) and compensation for political violence are considered as a reduction in the float at the treasury.

<sup>27</sup> External debt service due minus any accumulation of external arrears minus debt relief obtained. The programmed amounts of debt service, payments arrears, debt relief, and nonproject external financing are calculated in CFA franc terms based on currency-specific exchange rates. The actual amounts are calculated in CFA franc terms based on the actual transactions in foreign currency and the exchange rates published by the Fund.

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

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

	2004	2005
World Brent oil prices (U.S. dollar per barrel)	30.0	27.0
Gabonese export oil prices (U.S. dollar per barrel)	28.9	25.8
Oil output (in millions of metric tons) <sup>28</sup>	13.3	11.5
Exchange rate (CFA francs per US\$1, annual average)	532.6	533.7

#### E. Reporting Requirements

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

- (a) the comprehensive monetary survey, the central bank balance sheet, and the consolidated balance sheet of the commercial banks;
- (b) the net financial position of the central government with the BEAC (PNG) and net credit from the banking system to the central government, with a separate line for the Account of the Fund for Future Generations;
- (c) central government financial operations (*opérations financières de l'Etat*) on a payment order basis (*ordonnancements*) (attached Table 1), identifying any discrepancy between the fiscal deficit and changes in domestic and external arrears, on the one hand, and total net domestic bank/nonbank and net external financing, on the other;
- (d) the detailed breakdown of petroleum receipts by nature (royalties, profit tax, and other) and by company, and the underlying basis when available (e.g. production, prices, turnover, costs, etc.), as well as the detailed breakdown of non-oil receipts (by type of tax) and nontax revenue;

<sup>28</sup> The average conversion rate is 7.3 barrels per metric ton.

- (e) the detailed breakdown of total central government expenditure, on an adjusted commitment basis, adjusted payment order basis, and cash basis as presented in the *Tableau Intégré* produced by the Statistical Committee (*Comité statistique*).
- (f) the details for domestic and external debt-service obligations, on a contractual and actual payments basis, respectively, with a breakdown into interest and principal and by creditor, as well as any possible accumulation of domestic or external arrears (electronic file);
- (g) the details on the stock of external and domestic debt at the end of each month (electronic file);
- (h) the details for the outstanding stock of domestic arrears (month to month) and the cumulative flows from January 1<sup>st</sup>, 2004: the net accumulation of new arrears during 2004 as defined in paragraph 11 by the difference between payment orders (*ordonnancements*) and payments made (cash basis), as well as the repayment of pre-2004 arrears, with both items to be broken down by wages and salaries, goods and services, transfers and subsidies, interest, capital expenditure, and net lending; any stock-flow adjustment not consistent with flows should be explained (electronic file).
- (i) the amount of new external debt contracted or guaranteed by the central government, with the detailed information (electronic file) on the original terms and conditions (currency of denomination, interest rate, grace period, and maturity);
- (j) actual disbursements on non-project-related external financing, including on newly contracted loans, and the amounts of debt relief granted to Gabon by external creditors (electronic file);
- (k) monthly information on the oil sector: export prices, effective exchange rate, production per oil field, exports, based on data from the Direction Générale des Hydrocarbures (electronic file);
- (l) indicators and other statistical data on recent economic developments, such as the household consumer price index, merchandise imports and exports (in value and volume terms) by major categories on the basis of customs data, log production and exports (in value and volume terms), as well as the quarterly reports on economic activity prepared by the General Directorate of the Economy and the Interinstitutional Committee on Statistics;
- (m) a status report on the implementation of the structural reforms specified in Table 2 of the MEFP attached to the letter of May 6, 2004; and
- (n) quarterly data on the finances of local authorities.

The Technical Support Unit of the Interministerial Committee for Monitoring the Structural Adjustment Program will provide the African Department of the IMF with any other

information that the latter may deem necessary or that may be requested by the staff of the IMF for the effective monitoring of the program.

**Gabon: Relations with the Fund**

(As of March 31, 2004)

**I. Membership Status:** Joined: September 10, 1963; Article VIII

<b>II. General Resources Account:</b>	SDR Million	%Quota
Quota	154.30	100.00
Fund holdings of currency	191.89	124.36
Reserve position in Fund	0.18	0.12

<b>III. SDR Department:</b>	SDR Million	%Allocation
Net cumulative allocation	14.09	100.00
Holdings	0.04	0.30

<b>IV. Outstanding Purchases and Loans:</b>	SDR Million	%Quota
Extended arrangements	26.20	16.98
Stand-by arrangements	11.57	7.50

**V. Latest Financial Arrangements:**

<u>Type</u>	<u>Approval Date</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR Million)</u>	<u>Amount Drawn (SDR Million)</u>
Stand-by	Oct 23, 2000	Apr 22, 2002	92.58	13.22
EFF	Nov 08, 1995	Mar 07, 1999	110.30	60.67
Stand-by	Mar 30, 1994	Mar 29, 1995	38.60	38.60

**VI. Projected Payments to Fund**

(SDR Million; based on existing use of resources and present holdings of SDRs):

	<u>Forthcoming</u>				
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Principal	15.07	16.72	4.60	1.38	
Charges/Interest	<u>0.71</u>	<u>0.63</u>	<u>0.34</u>	<u>0.24</u>	<u>0.22</u>
Total	15.78	17.35	4.93	1.62	0.22

**VII. Implementation of HIPC Initiative:** Not Applicable

**VIII. Safeguards Assessments:**

Under the Fund's safeguards assessment policy, the Bank of Central African States (BEAC), of which Gabon is a member, was subject to a full safeguards assessment. An on-

site assessment of the BEAC was completed on July 20, 2001. Staff's findings and recommendations are reported in Country Report 02/98. Currently BEAC is subject to a subsequent safeguards assessment and necessary documentation has been requested from the authorities on February 20, 2004.

**IX. Exchange Rate Arrangement:**

Gabon's currency is the CFA franc, which is pegged to the euro at a fixed rate of CFAF 655.957= €1.

**X. Last Article IV Consultation:**

- (a) Consultations with Gabon are on the standard 12-month cycle.
- (b) The last consultation discussions were initiated in Libreville in March/April 2003. The consultation was concluded by the Executive Board on November 10, 2003.

**XI. FSAP Participation:**

Gabon participated in the FSAP and, in this connection, a joint Fund/World Bank mission visited Libreville in June and July 2001. The FSSA report was discussed by the Executive Board in March 2002.

**XII. Technical Assistance:**

<b>Department</b>	<b>Purpose</b>	<b>Time of Delivery</b>
FAD	Budget management	March 2004
FAD	Tax policy and administration	November 2003
LEG	Law against illicit enrichment	June, July and October 2003
FAD	Budgetary procedures and expenditure control	November 2000
STA	Multitopic statistics mission	April 1999
FAD	Value added tax administration issues	August 1997

**XIII. Resident Representative:**

The Fund maintains a resident representative office in Libreville. The current resident representative, Mr. Richard Randriamaholy, assumed his post in October 2003.

## **Gabon: Relations with the World Bank**

(As of April 15, 2004)

As one of Africa's few IBRD countries, Gabon has been prudent about borrowing from the Bank in the past. However, the country's oil revenues are projected to decline significantly over the next few years (as a result of limited reserves). This, coupled with Gabon's heavy external debt services, will increasingly constrain the government's ability to fund basic services and reduce poverty. The government has started exploring the country's potential for economic diversification, and the Bank is supporting efforts to restructure and privatize public enterprises, and is planning to provide Foreign Investment Advisory Services (FIAS) assistance to help improve the investment climate.

### **The Bank Group strategy and lending operations**

28. In June 1997, the Bank approved a privatization and regulatory capacity-building technical assistance IBRD loan (Privatization Program Support Project) in an amount equivalent to US\$10 million. This project is expected to contribute to the growth of private investment and increase the participation of non-oil private sector in the country's economy. The closing date of the project was extended until end-June 2004, in order to complete the tasks jointly selected by the government of Gabon and the Bank for their potential important contribution to the achievement of the project objectives. These tasks are the privatization of Gabon Télécom, the creation of a mutual fund for the placement of minority shares with the public, the restructuring and privatization of HEVEGAB, a large state-owned enterprise in the agro-business sector, and the completion of the restructuring program of the social security organization.

29. The creation of the mutual fund and the restructuring program of the Social Security organization are underway. HEVEGAB, along with two other agrobusinesses were sold in early April. The preparation of the bidding documents for privatization of Gabon Télécom is progressing, but with some delay.

30. An urban learning and innovation loan (LIL) in an amount equivalent to US\$5 million was approved on August 24, 1998. Its purpose is to help test new procurement methods, support the implementation of pilot urban works in poor urban neighborhoods, and conduct urban public expenditure reviews. The project has been extended until end-June 2004. The methods tested through the Pilot Community Infrastructure Project have demonstrated the small and medium scale enterprises' ability and potential to play a more substantial role in economic activity. The lessons learned through the Project can be further disseminated and applied to various sectors as identified in the 2002 review of public expenditures performed by the project implementation unit (several specific sectors have been identified, in particular health and education).

31. The Bank's portfolio consists only of the two projects mentioned above with total commitments of around US\$15 million, of which about US\$11.4 million was disbursed as of end-March 2004.

32. A Forestry and Environment project is currently under preparation and a follow-up to the Pilot Community Infrastructure Project is also in preparation. The findings and recommendations of the diagnostic studies on the business climate in Gabon to be conducted by the FIAS could serve as input for the preparation of a future Private Sector Development Project. However, future Bank assistance to Gabon will be more clearly defined within the context of a new Country Assistance Strategy (CAS) which will be presented to the Board in FY2005.

**TABLE 1. BANK/FUND COLLABORATION**

<b>Area of Structural Reform</b>	<b>Lead Institution</b>
<b>1. Fiscal area</b>	
Civil service reform	IMF
Expenditure monitoring and control	IMF
Priority Expenditure Tracking under PRSP	World Bank
Medium-term public expenditure review	World Bank
Tax administration	IMF
<b>2. Governance</b>	
Anticorruption law implementation	IMF
Code of ethics for government officials	IMF
<b>3. Judicial reform</b>	
Commercial code/competition	IMF
<b>4. Private sector development</b>	
FIAS study of the business climate	World Bank/IFC
Privatization	World Bank
<b>5. Other</b>	
Price controls	IMF
Forestry and environment	World Bank
External trade	IMF
Transport	World Bank
Urban development	World Bank

**IMF-World Bank collaboration in specific areas**

33. Overall, the IMF and World Bank staff maintain a close collaborative relationship in supporting reforms to foster economic diversification and in coordinating their policy advice

to the Gabonese authorities. In view of the structural measures envisaged under the medium term program, successful implementation hinges on complementary action by the World Bank, especially in the areas of business climate improvements, poverty reduction policies, privatization, and nonrenewable resource management, as well as the identification of the sources of growth in the non-oil sector.

#### **Areas in which the World Bank leads and there is no direct IMF involvement**

34. A Poverty Assessment (PA), initiated in late 1994, was finalized in March 1997 and discussed with a broad range of Gabonese stakeholders in July 1997. The main conclusion of the report is that the relative inefficiency and low quality of public expenditures, particularly in the social sectors, constitute major impediments to poverty alleviation. The Bank is supporting the preparation of the Government's poverty reduction strategy, and in that context, will continue to provide support for strengthening the statistical capacity and assisting the NSO (National Statistical Office) to undertake key household surveys along the lines of the Core Welfare Indicators Questionnaire (CWIQ), and to update key social indicators to be monitored on an annual basis. The Bank also plans to assist the NSO in putting together a monitoring and evaluation system for the poverty reduction strategy.

#### **Areas in which the World Bank leads and its analysis serves as input into the IMF**

35. In June 2002 the Bank completed a US\$22.5 million ten-year project that aimed to improve the management and protection of Gabon's forestry and environmental resources. The project aimed at implementing and strengthening government policies on forestry and environment and was to strengthen the planning and operational capacity of government institutions and local environmental nongovernmental organizations (NGOs). A new program in the same sector is being prepared for Board presentation in FY2005. This program builds on the lessons learned during the implementation of the previous project, and expects to broaden its objectives by reaching a larger number of beneficiaries, attracting investments in the forestry, fishing and environment sectors, and thus assisting the government in its efforts to diversify the Gabonese economy and reduce its dependence on the oil sector.

36. The FIAS (a joint facility of the World Bank and International Finance Corporation) will provide advisory services to help improve the investment climate in Gabon. This technical assistance would consist of three studies to identify constraints to private investment and to provide an action plan to remedy impediments to private sector growth. The first study could begin as early as May 2004, and would be a diagnostic of the investment climate, including identification of priorities for reform and concrete recommendations. The second and third studies would consist of a detailed review of administrative barriers to investment; and an in-depth review of the tax and incentive regime. FIAS will confirm each study based on action on the previous one.

37. The Bank is also preparing an Infrastructure Framework Report (IFR), which will present a comprehensive overview of the country's general environment for private

participation and the main opportunities for investment and private participation in infrastructure. The report will also outline recommendations and an action plan to assist the Government in putting in place the laws, policies, and institutions needed to create an enabling environment for enhanced private-sector participation. This study covers transport infrastructure (railways, air transport, maritime transport), telecommunications, water, and power.

12. During the second half of 2004, the Bank will also assist in carrying out a public expenditure review aimed at assessing expenditure effectiveness, particularly in the social sectors.

### **Areas of shared responsibility**

13. While the Bank has taken the lead in privatization and in structural reforms impacting the environment for the private sector, the IMF has a strong interest in the same area from a macroeconomic perspective. The IMF's primary focus is on good governance, particularly in the fiscal area, and transparency in private sector development and economic diversification. Additional concerns for the Bank include efficiency of the resulting market structures and improved enterprise operation. The Bank and the IMF are also working closely together in the financial sector, for which a Financial Sector Assessment Program (FSAP) was jointly prepared by the two institutions during 2002. While the FSAP indicated that the financial sector in Gabon is overall profitable and stable, it also identified certain structural weaknesses and risks in Gabon's financial sector, including lack of bank portfolio diversification and underdevelopment of nonbank financial institutions. Follow-up work could include assessing progress in these areas.

14. **Areas where the Fund takes the lead role and its analysis serves as input into the World Bank-supported program** are in the dialogue on fiscal matters, which sets the overall envelope for public expenditures. The IMF is also providing technical assistance in the area of governance and anticorruption.

15. The IMF leads the dialogue on policies to contain various expenditures in the public sector. These include policies regarding the wage bill in the public sector and the definition of the ceiling for public investment expenditures. In these areas, the Bank takes into account the policy recommendations of the IMF and ensures that its own policy advice is consistent.

16. In addition, the IMF is monitoring the implementation of the Uniform Acts of the Organization for the Harmonization of Business Law in Africa (OHADA) and trade liberalization measures being taken at the CEMAC (regional) level. This supplements a significant on-going program of work by the Bank to support regional integration among CEMAC countries. The IMF is also following the streamlining of the judicial process. These measures should improve the business climate and will complement work by the Bank (in conjunction with the IFC) in the area of facilitating investment.

17. **Areas in which the IMF leads and there is no direct World Bank involvement** relate to the dialogue on monetary policy, interest rates, the exchange rate, the balance of payments, and related statistical and measurement issues.

## **Gabon: Assessing External and Public Sector Debt Sustainability**

*This appendix assesses external and public sector sustainability, applying the framework adopted by the Board to the staff's baseline scenario and considering the impact of several shocks. In addition to the standard stress tests, this appendix considers the effect of three additional shocks to the baseline scenario, namely a lower growth in non-oil GDP and non-oil exports, a lower oil price, and lower growth in wood-related exports. The baseline external sustainability scenario during the period 2004-2013 shows that, under the assumption the financing gaps are filled by new borrowing or by nonconcessional reschedulings, the external debt-to-GDP ratio peaks in 2006 and decreases thereafter, financing gaps remain positive but decreasing and are finally eliminated by 2019, and debt service-to-exports ratio peaks in 2012 and decreases thereafter. The results of the public sector debt baseline analysis indicate that most of the outstanding domestic public debt will be eliminated by 2010, as its maturities are relatively short term. The stress tests reveal that Gabon's debt sustainability is extremely sensitive to shocks to non-oil real growth (affecting both non-oil exports and budgetary revenues), as it is to changes in the price of oil. These results point to the importance of adhering to policies fostering non-oil growth, private sector development, and diversification of Gabon's economic base.*

### **External Public Debt Sustainability**

1. The baseline debt sustainability analysis (DSA) indicates that, over the medium term (2004-2006), the external debt-to-GDP ratios are projected to increase by 5.7 percentage points to 61.6 percent of GDP (see Table 1 and Figure 1). The period 2004-2006 is characterized by a decrease in oil receipts, moderate non-oil growth and continued fiscal adjustment that result in financing gaps that average approximately CFAF 160 billion per year.<sup>29</sup> These gaps are assumed to be filled by rescheduling debt obligations to bilateral creditors on Houston terms up to mid-2005 (and on commercial terms thereafter).<sup>30</sup> After 2006, the baseline scenario projects an improvement in the external debt-to-GDP ratio to 47.0 in 2013 on account of (i) continued growth of non-oil real GDP and (ii) amortization in excess of new borrowings. The debt-service ratios peak in 2012, reaching 31.6 percent for the debt service-to-exports ratio and 48.6 percent for the debt service-to-revenue ratio. The analysis in the baseline scenario indicates that further reschedulings will be required, since the financing gaps in both the balance of payments and the budget will be eliminated only after 2019.

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<sup>29</sup> It excludes in 2004, a potential rescheduling of payments arrears for CFAF 321 billions.

<sup>30</sup> Houston terms are assumed to be 18-year maturities, 3-year grace and 5 percent annual interest rate. Commercial terms are assumed to be 8-year maturities, 3-year grace and 5.5 percent annual interest rate. Financing gaps in 2007 and after are assumed to be financed on commercial terms.

2. Gabon's vulnerability to external shocks remains high as shown by the standard sensitivity tests (Table 1, bottom panel and Figure 1).<sup>31</sup> In each of the tests, which assume extreme adverse shocks to each key parameter individually and jointly, the debt ratio rises faster and to higher levels than in the baseline:<sup>32</sup>

- Of all the shocks, the shock on interest rates results in the smallest initial rise in the debt-to-GDP ratio in 2004-05, and the shares the baseline trend peaking in 2006 and declining thereafter.
- Under a temporary shock to the U.S. dollar deflator, the debt ratio rises sharply (35.6 percentage points by 2006), and decreases slowly thereafter to reach approximately 84 percent of GDP by 2013. The larger increase in the debt ratios reflects the 14.4 depreciation assumed for both 2004 and 2005 instead of the relative stability of the deflator in the baseline.
- The long-term effects of the shock to the non-interest current account balance (the historical non-interest current account balance minus one standard deviation for 2004-05) are small. The temporary shock is absorbed by 2006 and the trend in the debt ratio is similar to that in the baseline.
- The combined shock leads to a sharp increase in the external debt ratio, as the result is dominated by the deflator shock (an increase in debt ratios by 57.3 percentage points by 2013).
- A one time 30 percent depreciation of the CFA franc vis-à-vis the U.S. dollar in 2004 results in a rise in the debt-to-GDP ratio of 15 percentage points by 2005. However, after peaking in 2006, decreases steadily thereafter. This outcomes reflects that dollar denominated debt accounts for approximately 15 percent of total external debt at end-2003. Clearly, a depreciation against the euro would have a much stronger effect (70 percent of external debt is euro-denominated at end-2003).

4. The analysis includes three additional sensitivity tests, namely a long-term shock to non-oil real growth, a long-term shock to wood-related exports, and a long-term shock to the

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<sup>31</sup> The test that combines the effect of setting all key variables at their historical values is not presented, since the relatively large average non-interest current account surpluses are the dominating effect. Thus, the results obtained would not be realistic given the steady decreases in oil production projected in the baseline scenario.

<sup>32</sup> These sensibility analyses consider adverse shocks of one standard deviation, lasting two years (i.e., transitory shocks) for each key parameter.

price of oil.<sup>33</sup> All shocks lead to a deterioration of the external current account, the first two through lower non-oil exports and the latter through lower oil-exports. However, while the negative effect of the lower oil price tends to be absorbed through time by the projected increase in non-oil exports, the effect of lower growth in the tradable non-oil sector causes debt ratios to turn unsustainable. Interestingly, given the still large size of oil exports, the effect of a lower oil price impacts heavily in the short-term while the lower growth in the non-oil tradable sector impacts more in the medium to long-term. Although less dramatic, the impact of lower wood-related exports is reflected in a debt-to-GDP ratio that fluctuates around 60 percent during the current decade, and remains at 2003 levels by 2013. The clearly unsustainable path for the debt-to-GDP ratio in the case of lower non-oil tradable GDP growth underscores the importance for Gabon to adopt macroeconomic policies that promote economic diversification.

### **Public Sector Debt Sustainability**

5. Under the baseline projections, Gabon's total public sector-to-GDP ratio is projected to decrease from 67.6 percent in 2003 to 66.1 percent in 2006 and further to 56.1 percent in 2010, as the repayment of domestic debt offsets the foreign borrowing needed to fill the financing gaps.<sup>34</sup> Domestic debt is assumed to be fully repaid by 2010. The key assumption underlying this result is the growth of non-oil GDP, which is projected to average 3.4 percent in 2003-2010 (see Table 2 and Figure 2).

6. Gabon's public debt sustainability vulnerabilities are underscored when considering the stress test that uses the primary balance as the shock variable. A one-standard deviation shock on the primary balance in 2004-05 results in a public debt-to-GDP that is 23 percentage points higher than the baseline in 2013. This is the result of lower domestic debt being retired and more foreign borrowing needed to cover the resulting financing gap.

7. Not surprisingly, the results obtained for the sensitivity tests that consider temporary shocks to other key parameters (Table 2, bottom panel and Figure 2) resemble those described for the external debt. As for the stress test that considers a combination of shocks to all relevant parameters, the profile of the public debt ratio shows a strong temporary increase, followed by a gradual decline; the profile remains below that of the external debt

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<sup>33</sup> The shock to wood-related export intends to reflect the consequences of failing to implement the reform agenda in this sector.

<sup>34</sup> The domestic debt declines due to (i) the government's reimbursement of domestic debt to suppliers and public contractors; (ii) the repayment by the government of public enterprise debt to social security system and suppliers (assumed by the government in recent years in the context of the restructuring of such enterprises); and (iii) the repayment to commercial banks of domestic debt. All these debts have relatively short maturities.

ratio under the combined shock, because in the former the shock to the GDP deflator is absent.<sup>35</sup>

8. As done for the external DSA, the public debt sustainability analysis includes three additional sensitivity tests, namely a long-term shock to non-oil real growth, a long-term shock to wood-related exports, and a long-term shock to the price of oil. As before, the effect of lower growth in the tradable non-oil sector causes debt ratios to turn unsustainable. This result underscores that the main factor in Gabon's debt sustainability lies in its ability to sustain steady growth in the non-oil sector through diversification.

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<sup>35</sup> The test that combines the effect of setting all key variables at their historical values (not presented), is dominated by the higher primary surpluses, lower interest rates and higher nominal GDP growth that were the case during the height of Gabon's oil boom. Presenting this scenario could be misleading given the expected change in the structure of Gabon's economy.

Table 1. Gabon: External Debt Sustainability Framework, 1999–2013

	(In percent of GDP, unless otherwise indicated)														
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
	I. Baseline Medium-Term Projections														
External debt	79.6	57.1	63.1	62.7	55.9	58.6	60.7	61.5	59.9	59.1	56.6	56.1	53.3	50.6	47.0
Change in external debt	-1.3	-22.5	6.0	-0.4	-6.9	2.7	2.1	0.9	-1.6	-0.8	-2.5	-0.6	-2.8	-2.7	-3.7
Identified external debt-reducing flows (4+8+11)	-17.5	-18.0	0.5	-2.6	-5.9	2.1	4.0	3.3	0.8	1.3	-0.8	0.9	-1.6	-1.7	-1.7
Current account deficit, excluding interest payments (= surplus)	-14.4	-24.9	-18.9	-8.7	-13.6	-9.1	-5.1	-3.0	-3.0	-1.7	-2.6	-2.7	-2.1	-1.8	-1.5
Deficit in balance of goods and services (= surplus)	1.8	-38.2	-31.0	-24.3	-26.6	-23.4	-17.1	-14.3	-13.4	-11.0	-11.0	-10.3	-8.7	-7.7	-6.9
Exports	57.7	68.8	59.1	56.0	57.0	56.9	50.1	46.9	44.7	41.1	39.7	38.6	36.5	34.5	32.7
Imports	59.5	30.7	28.1	31.8	30.4	33.5	32.9	32.6	31.3	30.1	28.7	28.3	27.8	26.8	25.8
Net nondebt creating capital inflows (= inflows)	-3.5	15.7	8.3	3.4	8.5	6.8	4.1	2.0	1.3	0.7	0.2	0.5	-0.7	-0.9	-1.0
Net foreign direct investment, equity	12.1	-1.3	-2.0	4.6	1.5	3.5	4.4	4.6	4.2	3.7	3.5	3.2	3.1	2.7	2.7
Net portfolio investment, equity, and other private capital flows	-8.6	-14.3	-6.3	-8.0	-9.9	-10.3	-8.4	-6.6	-5.5	-4.4	-3.7	-3.7	-2.4	-1.9	-1.7
Automatic debt dynamics 1/	0.4	-8.8	11.1	2.7	-0.7	4.4	5.0	4.3	2.5	2.2	1.6	3.1	1.1	1.0	0.8
Contribution from nominal interest rate	6.0	5.2	7.9	3.5	3.2	3.4	3.5	3.5	3.4	3.3	3.2	3.1	3.0	2.8	2.6
Contribution from real GDP growth	6.9	1.4	-1.4	-1.3	0.0	-1.0	0.4	-0.4	-1.2	-1.2	-1.4	-1.4	-1.5	-1.5	-1.4
Contribution from price and exchange rate changes 2/	-12.5	-15.4	4.5	-0.8	-2.5	2.1	1.1	1.1	0.2	0.1	-0.2	1.4	-0.3	-0.3	-0.3
Residual, including change in gross foreign assets (2-3)	16.1	-4.5	5.5	2.2	-1.0	0.6	-1.9	-2.5	-2.4	-2.1	-1.7	-1.4	-1.1	-1.0	-2.0
External debt-to-exports ratio (in percent)	138.1	82.9	106.7	112.0	98.0	102.9	121.2	131.3	134.0	143.7	142.7	145.3	146.2	146.7	143.5
Gross external financing need (in billions of U.S. dollars) 3/	-0.1	-0.7	-0.1	0.1	-0.2	0.0	0.3	0.4	0.4	0.6	0.6	0.4	0.5	0.6	0.5
In percent of GDP	-1.1	-12.8	-1.8	2.2	-4.1	0.3	4.5	6.8	6.8	8.9	8.4	6.4	7.8	8.6	6.7
	II. Stress Tests for External Debt Ratio														
Key macroeconomic and external assumptions															
Real GDP growth (in percent)	-8.9	-1.9	2.0	0.0	2.8	2.0	-0.7	0.6	2.0	2.1	2.4	2.6	2.7	2.8	2.9
Real non-oil GDP growth (in percent)	-10.5	2.1	5.3	0.6	1.0	3.0	3.5	3.8	3.8	3.8	4.0	4.0	4.0	4.0	4.0
Exchange rate appreciation (U.S. dollar value of local currency, change in percent)	-4.1	-13.4	-3.0	5.3	19.9	8.9	-0.2	0.1	0.2	0.2	0.2	0.0	0.0	0.0	0.0
GDP deflator in U.S. dollars (change in percent)	14.4	11.3	-9.4	5.3	19.0	2.6	-2.0	-1.7	-0.2	-0.1	0.6	-2.4	0.6	0.7	0.7
Non-oil GDP deflator in U.S. dollars (change in percent)	-0.5	-10.8	-0.9	5.1	20.3	11.3	1.5	1.7	1.4	1.5	1.3	0.9	0.9	0.9	0.9
Nominal external interest rate (in percent)	7.7	7.1	12.7	5.8	6.2	6.3	5.9	5.8	5.7	5.7	5.6	5.5	5.5	5.4	5.3
Growth of exports (U.S. dollar terms, in percent)	31.2	33.1	-21.4	-0.7	24.8	4.2	-15.3	-8.1	-3.2	-6.7	-0.7	-3.0	-2.6	-2.3	-2.0
Growth of non-oil exports (U.S. dollar terms, in percent)	26.0	2.5	-18.8	4.3	22.0	1.9	8.4	7.8	7.6	6.5	6.3	5.7	5.5	5.2	4.9
Growth of imports (U.S. dollar terms, in percent)	-21.6	-12.2	6.0	12.8	13.4	14.0	0.0	1.8	1.6	1.6	0.5	0.0	0.0	3.1	0.8
Growth of non-oil private imports (U.S. dollar terms, in percent)	-22.6	-21.2	5.9	23.4	7.2	14.3	4.8	5.0	4.5	4.0	3.7	3.5	3.5	3.5	2.0
1. Nominal interest rate is at historical average plus one standard deviation in 2003 and 2004															
2. Real GDP growth is at historical average minus one standard deviation in 2003 and 2004															
3. Change in U.S. dollar GDP deflator is at historical average minus one standard deviation in 2003 and 2004															
4. Noninterest current account is at historical average minus one standard deviation in 2003 and 2004															
5. Combination of 2-5 using one standard deviation shocks															
6. One time 30 percent nominal depreciation in 2003															
7. Non-oil real growth is 2 percentage points lower than in baseline															
8. Oil price is 15 percent lower than in baseline															
9. Wood-related exports are 2 percentage points lower than in baseline															
Historical statistics for key variables (past 10 years)															
	Historical Average	Standard Deviation													
Current account deficit, excluding interest payments	-13.1	9.0													
Net nondebt creating capital inflows	-5.2	6.2													
Nominal external interest rate (in percent)	8.4	2.0													
Real GDP growth (in percent)	1.7	4.4													
GDP deflator in U.S. dollars (change in percent)	-1.7	14.4													
	Average 2003-10														
Current account deficit, excluding interest payments	-3.7														
Net nondebt creating capital inflows	-1.9														
Nominal external interest rate (in percent)	5.7														
Real GDP growth (in percent)	1.7														
GDP deflator in U.S. dollars (change in percent)	-0.3														

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

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

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



Table 3. Gabon: Baseline Debt Sustainability Analysis, 2003–23 1/

(In billions of CFA francs, unless otherwise noted)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2023	Averages		
													2003–10	2011–23	2003–23
Total stock of debt	1,966.7	1,981.6	2,002.2	2,004.7	1,981.9	1,990.9	1,960.5	1,941.9	1,908.4	1,875.2	1,802.2	343.7	1,978.8	1,270.9	1,568.9
Stock of outstanding (excluding arrears)	1,640.6	1,397.4	1,183.5	975.9	766.6	553.0	341.2	226.2	111.8	28.6	25.4	4.9	885.6	20.1	419.6
Stock of new borrowing	0.0	584.2	818.7	1,028.8	1,215.3	1,437.9	1,619.3	1,715.7	1,796.6	1,846.6	1,776.8	338.8	1,052.5	1,250.9	1,121.9
Stock of arrears 2/	326.0												326.0		302.2
Total debt service	319.0	332.1	330.5	323.1	326.8	382.8	407.2	324.3	367.0	404.2	338.4	131.5	343.2	294.4	315.7
Debt service due outstanding debt	318.8	308.5	296.3	277.6	266.5	258.1	249.2	141.3	147.4	130.0	14.9	0.6	264.5	24.4	127.6
Debt service on new borrowing	0.2	23.7	34.2	45.5	60.3	124.8	158.0	183.0	219.6	274.2	323.5	130.9	78.7	270.0	188.2
Of which: repayment of arrears	0.0	0.0	0.0	0.0	0.0	24.4	24.4	24.4	24.4	24.4	24.4	0.0	9.1	22.5	16.6
Total amortization 3/	206.8	218.2	213.7	207.6	213.3	270.6	296.6	216.7	261.2	302.0	238.2	113.7	230.4	223.8	227.5
Amortization on current debt	206.8	218.2	213.7	207.6	209.2	213.7	218.2	121.3	134.1	124.0	13.2	0.5	201.1	22.6	97.9
Amortization due to new borrowing	0.0	0.0	0.0	0.0	4.0	57.0	78.3	95.4	127.1	178.1	225.0	113.1	29.3	201.3	129.6
Of which: repayment of arrears	0.0	0.0	0.0	0.0	0.0	24.4	24.4	24.4	24.4	24.4	24.4	0.0	9.1	22.5	16.6
Total interest payments	112.2	114.0	116.8	115.5	113.5	112.2	110.6	107.6	105.8	102.2	100.2	17.8	112.8	70.6	88.2
Interest payments on current debt	112.0	90.3	82.5	70.0	57.3	44.4	31.0	20.0	13.3	6.1	1.7	0.1	63.4	1.8	29.6
Interest payments due to new borrowing	0.2	23.7	34.2	45.5	56.2	67.8	79.6	87.6	92.5	96.1	98.5	17.7	49.4	68.7	58.6
DSA ratios	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2023			
Ratio of total debt/GDP	55.9	58.6	60.7	61.5	59.9	59.1	56.6	56.1	53.3	50.6	47.0	6.0	58.5	30.2	42.0
Ratio current debt/GDP	46.6	41.3	35.9	30.0	23.2	16.4	9.9	6.5	3.1	0.8	0.7	0.1	26.2	0.5	12.3
Ratio new debt and arrears clearance/GDP	9.3	17.3	24.8	31.6	36.7	42.7	46.8	49.5	50.2	49.8	46.3	5.9	32.3	29.7	29.7
Ratio of total debt/exports of goods and nonfactor services	98.0	102.9	121.2	131.3	134.0	143.7	142.7	145.3	146.2	146.7	143.5	24.3	127.4	99.0	110.0
Ratio current debt/exports	81.8	72.6	71.6	63.9	51.8	39.9	24.8	16.9	8.6	2.2	2.0	0.3	52.9	1.6	24.7
Ratio new debt and arrears clearance/exports	16.3	30.3	49.5	67.4	82.2	103.8	117.9	128.3	137.6	144.4	141.5	23.9	74.5	97.4	85.3
Ratio of total debt/revenues	187.5	194.0	207.3	220.3	233.8	232.5	231.3	231.4	232.3	225.3	211.8	29.4	217.3	137.7	169.4
Ratio current debt/revenues	156.4	136.8	122.5	107.2	90.4	64.6	40.2	27.0	13.6	3.4	3.0	0.4	93.1	2.3	43.1
Ratio new debt and arrears clearance/revenues	31.1	57.2	84.8	113.0	143.4	167.9	191.0	204.5	218.7	221.9	208.8	29.0	124.1	135.4	126.3
Ratio debt service/exports	15.9	17.3	20.0	21.2	22.1	27.6	29.6	24.3	28.1	31.6	27.0	9.3	22.2	22.8	22.5
Ratio current debt service/exports	15.9	16.0	17.9	18.2	18.0	18.6	18.1	10.6	11.3	10.2	1.2	0.0	16.7	1.9	8.1
Ratio new debt service/exports	0.0	1.2	2.1	3.0	4.1	9.0	11.5	13.7	16.8	21.4	25.8	9.2	5.6	20.9	14.4
Ratio of total debt service/revenue	30.4	32.5	34.2	35.5	38.5	44.7	48.0	38.6	44.7	48.6	39.8	11.3	37.8	31.3	33.8
Ratio current debt service/revenue	30.4	30.2	30.7	30.5	31.4	30.1	29.4	16.8	17.9	15.6	1.8	0.1	28.7	2.9	13.7
Ratio new debt service/revenue	0.0	2.3	3.5	5.0	7.1	14.6	18.6	21.8	26.7	32.9	38.0	11.2	9.1	28.4	20.1
Memorandum items:															
Exports of goods and nonfactor services	2,006.4	1,925.2	1,652.4	1,526.3	1,478.6	1,385.5	1,374.0	1,336.9	1,305.4	1,278.5	1,255.4	1,416.6	1,585.7	1,304.2	1,433.4
Exports of goods	1,800.6	1,527.7	1,401.6	1,353.9	1,260.8	1,249.3	1,212.2	1,180.8	1,153.8	1,130.8	1,113.3	1,325.6	1,373.4	1,190.7	1,285.1
Fiscal revenues, excluding grants	1,049.1	1,021.5	966.0	910.2	847.7	856.2	847.7	839.1	821.5	832.2	851.0	1,167.6	917.2	977.5	960.7
Nominal GDP	3,520.5	3,382.3	3,300.5	3,257.6	3,308.2	3,368.5	3,461.5	3,463.6	3,579.7	3,704.6	3,838.4	5,762.8	3,382.8	4,549.8	4,075.4

Sources: Gabonese authorities and Fund staff estimates.

1/ Paris Club rescheduling assumed at Houston terms. Non-IMF, non-PC, nonproject borrowing assumed at 8 years' maturity, with 3 years' grace, and 5.5 annual interest rate.

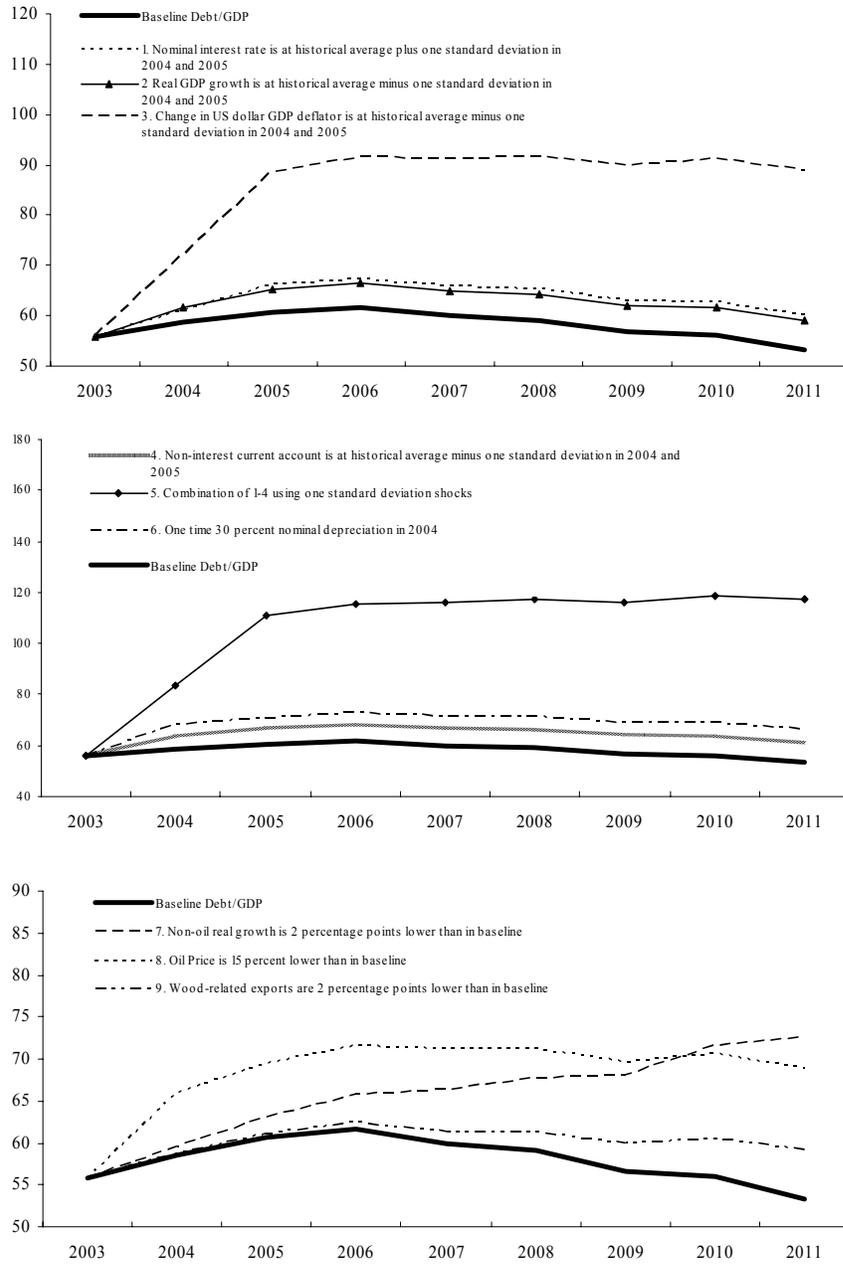
2/ Out of the stock of arrears at end-2003, approximately CFAF 320 billion was in reschedulable debt.

Table 4. Gabon: Macroeconomic Projections for the Baseline DSA, 2003–23  
(In billions of CFA francs, unless otherwise specified)

Sector projections	Averages														
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2023	2003–10	2011–23	2003–23
<b>1. Real sector</b>															
Real GDP growth rate	2.8	2.0	-0.7	0.6	2.0	2.1	2.4	2.6	2.7	2.8	2.9	3.5	1.7	3.2	2.6
<i>Of which:</i> non-oil GDP growth	1.0	3.0	3.5	3.8	3.8	3.8	4.0	4.0	4.0	4.0	4.0	4.0	3.4	4.0	3.4
Nominal GDP growth rate	2.1	-3.9	-2.4	-1.3	1.6	1.8	2.8	0.1	3.7	3.5	3.6	4.5	0.1	4.0	2.5
Nonnominal GDP levels	3,520.5	3,382.3	3,300.5	3,257.6	3,308.2	3,368.5	3,461.5	3,463.6	3,579.7	3,704.6	3,838.4	5,762.8	3,382.8	4,549.8	4,105.2
<i>Of which:</i> oil GDP	1,487.3	1,242.3	1,047.9	882.0	812.6	744.1	702.6	569.1	541.8	515.9	491.3	305.0	936.0	412.0	611.6
non-oil GDP	2,033.1	2,139.9	2,252.6	2,375.6	2,495.6	2,624.4	2,758.9	2,894.5	3,037.9	3,188.8	3,347.1	5,457.7	2,446.8	4,137.8	3,493.6
Oil production (millions of tons)	13.5	13.3	11.5	10.2	9.6	8.5	8.1	7.7	7.3	6.9	6.6	3.9	10.3	5.5	7.3
WEO oil prices (U.S. dollars/barrel)	28.9	30.0	27.0	26.0	25.5	25.0	25.0	24.0	23.0	22.0	21.0	20.0	26.4	20.5	22.7
<b>2. Balance of payments</b>															
Current account (including transfers)	367.9	194.8	50.5	-17.0	-15.6	-55.8	-19.8	-13.5	-31.7	-36.3	-41.1	132.6	61.4	21.3	36.6
Current account in percent of GDP	10.5	5.8	1.5	-0.5	-0.5	-1.7	-0.6	-0.4	-0.9	-1.0	-1.1	2.3	1.8	0.3	0.9
Exports, f.o.b.	1,881.7	1,800.6	1,527.7	1,401.6	1,353.9	1,260.8	1,249.3	1,212.2	1,180.8	1,153.8	1,130.8	1,291.9	1,461.0	1,179.6	1,286.8
Oil sector	1,498.8	1,442.3	1,138.4	982.4	903.6	782.0	741.2	675.2	614.1	575.5	505.2	288.3	1,020.5	411.2	643.3
Other sectors	382.9	358.3	389.3	419.2	450.3	478.9	508.1	537.0	566.7	576.3	625.6	1,003.6	440.5	768.4	643.5
Imports, f.o.b.	629.1	658.3	659.6	670.7	680.4	682.5	681.0	680.9	702.2	707.5	710.5	800.2	667.8	741.8	713.6
Oil sector	202.7	210.8	189.5	177.9	166.4	148.8	128.7	109.5	110.9	101.4	92.3	45.7	166.8	70.6	107.2
Government	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2	-0.1	-0.2	-0.1
Non-oil sector	-426.3	-447.5	-470.0	-492.6	-513.9	-533.6	-552.2	-571.3	-591.2	-605.9	-618.0	-754.3	-500.9	-671.0	-606.2
Trade balance	1,252.6	1,142.2	868.1	730.9	673.5	578.3	568.3	531.2	478.6	446.3	420.3	491.7	793.2	437.8	573.2
Services (net)	-831.3	-900.8	-768.3	-698.7	-640.0	-585.1	-539.1	-495.9	-461.5	-434.0	-412.8	-311.5	-682.4	-368.4	-488.0
<i>Of which:</i> interest on external debt	-112.2	-138.7	-116.8	-115.5	-113.5	-112.2	-110.6	-107.6	-105.8	-102.2	-100.2	-17.7	-115.9	-70.4	-87.7
profits (net)	-225.5	-230.7	-185.5	-162.6	-148.2	-128.5	-120.6	-113.7	-107.5	-94.6	-86.2	-76.4	-164.4	-81.8	-113.3
Transfers (net)	-53.4	-46.6	-49.4	-49.3	-49.2	-49.1	-49.0	-48.9	-48.8	-48.7	-48.6	-47.6	-49.3	-48.2	-48.6
Capital account	-404.8	-282.9	-167.2	-99.0	-80.5	-113.0	-131.4	-84.1	-83.5	-108.9	-31.3	2.3	-170.4	-33.1	-85.4
Transfers (net)	26.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.3	0.0	1.3
Medium and long term	-119.0	30.9	71.3	79.1	63.4	3.4	-32.5	16.9	-22.8	-62.3	11.9	61.1	14.2	17.8	16.4
<i>Of which:</i> government drawings	15.4	65.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	47.5	46.2	46.7
amortization	-224.9	-204.9	-200.4	-203.9	-208.2	-245.1	-272.2	-207.3	-248.2	-284.0	-215.2	-63.1	-220.9	-184.0	-198.0
Foreign direct investment	51.4	116.7	144.7	149.2	139.1	125.3	119.7	109.9	110.6	101.6	102.5	95.6	119.5	98.4	106.4
Other private medium and long term	39.1	54.1	77.1	83.8	82.5	73.2	69.9	64.3	64.7	70.2	74.6	28.6	68.0	57.3	61.4
Short-term flows (including errors and omissions)	-312.1	-313.8	-238.5	-178.0	-144.0	-116.3	-98.8	-101.0	-60.7	-46.6	-43.2	-58.8	-187.8	-50.9	-103.0
Overall balance	-36.9	-88.1	-116.7	-116.0	-96.1	-168.8	-151.1	-97.6	-115.2	-145.2	-72.4	134.9	-108.9	-11.8	-48.8
Memorandum items:															
Net IMF purchases (+ = net drawing)	-8.2	19.0	8.2	-3.7	-5.1	-25.5	-22.8	-1.3	0.0	0.0	0.0	0.0	-4.9	0.0	-1.9
Fiscal revenues, excluding grants	1,049.1	1,021.5	966.0	910.2	847.7	856.2	847.7	839.1	821.5	832.2	851.0	1,167.6	917.2	977.5	954.5
Exports of GNFS	2,006.4	1,925.2	1,652.4	1,526.3	1,478.6	1,385.5	1,374.0	1,336.9	1,305.4	1,278.5	1,255.0	1,416.6	1,585.7	1,304.2	1,411.4
<i>Of which:</i> non-oil	488.9	464.2	495.2	525.2	556.3	584.8	614.1	642.9	672.6	702.3	731.5	1,109.5	546.5	874.4	749.5
Imports of GNFS	-1,069.6	-1,133.2	-1,087.3	-1,061.5	-1,036.2	-1,013.9	-993.3	-979.1	-994.0	-992.1	-988.7	-1,090.2	-1,046.8	-1,021.9	-1,031.3
<i>Of which:</i> non-oil	-611.2	-656.5	-677.7	-701.8	-722.0	-744.8	-769.3	-794.1	-819.8	-837.0	-850.8	-1,017.1	-709.7	-914.8	-836.7
<b>Growth rates</b>															
Exports of GNFS	3.8	-4.0	-14.2	-7.6	-3.1	-6.3	-0.8	-2.7	-2.3	-2.1	-1.8	2.2	-4.4	0.5	-1.4
<i>Of which:</i> non-oil	1.9	-5.0	6.7	6.0	5.9	5.1	5.0	4.7	4.6	4.4	4.2	4.3	3.8	4.3	4.1
Imports of GNFS	-2.4	5.9	-4.1	-2.4	-2.4	-2.2	-2.0	-1.4	1.5	-0.2	-0.3	1.4	-1.4	0.8	0.0
<i>Of which:</i> non-oil	-3.6	7.4	3.2	3.6	2.9	3.2	3.3	3.2	3.2	2.1	1.7	1.8	3.2	2.9	2.3
Exports	4.2	-4.3	-15.2	-8.3	-3.4	-6.9	-0.9	-3.0	-2.6	-2.3	-2.0	2.4	-4.7	0.5	-1.5
<i>Of which:</i> non-oil	1.7	-6.4	7.7	7.4	7.4	6.3	6.1	5.5	5.2	5.2	4.9	4.8	4.6	4.9	4.8
Imports	-5.4	4.6	0.2	1.7	1.5	0.3	-0.2	0.0	3.1	0.8	0.4	1.5	0.3	1.3	0.9
<i>Of which:</i> non-oil	-10.6	5.0	5.0	4.8	4.3	3.8	3.5	3.5	3.5	2.5	2.0	2.0	2.4	2.2	2.3

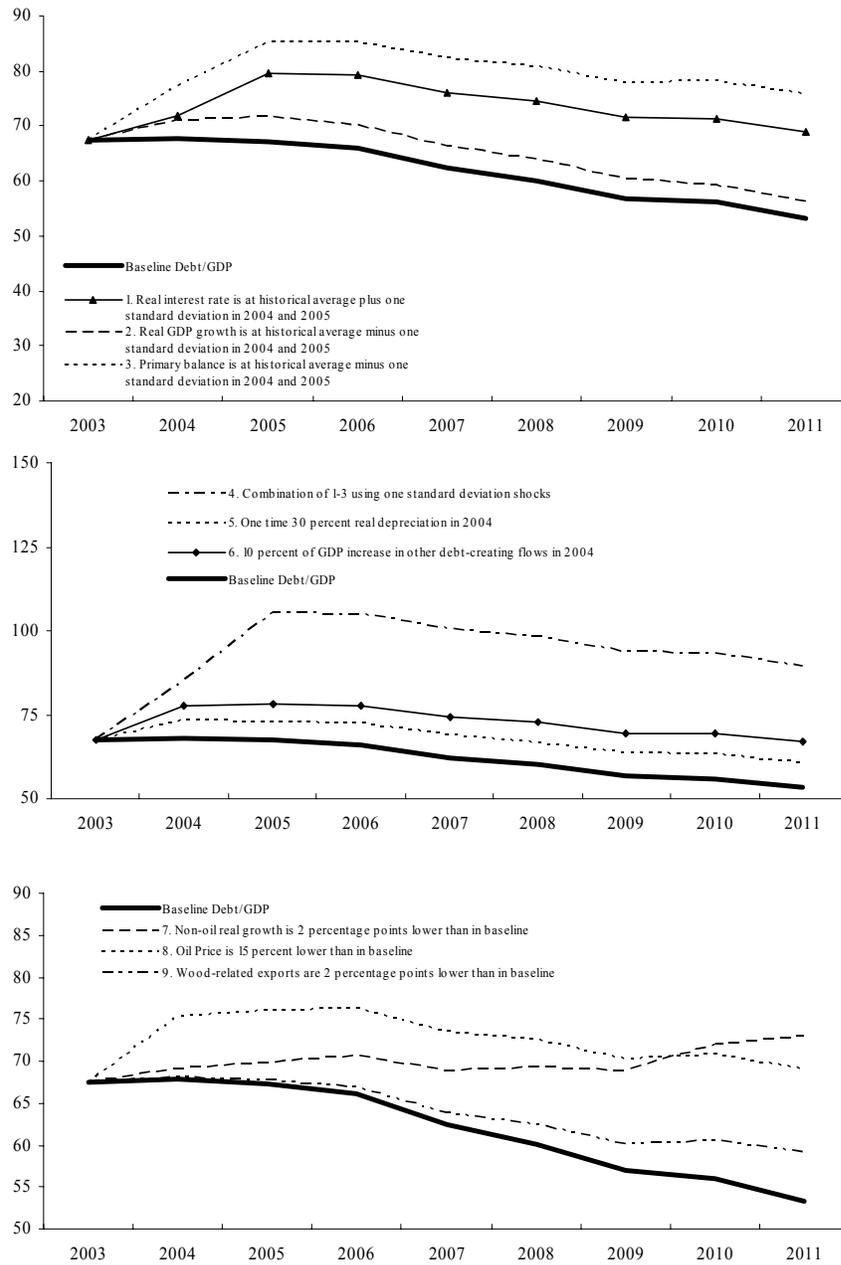
Sources: Gabonese authorities; and Fund staff estimates.

Figure 1. Gabon: External Public Debt Sustainability, 2003–2011  
(In percent of GDP)



Source: IMF staff estimates and projections.

Figure 2. Gabon: Total Public Sector Debt Sustainability, 2003–2011  
(In percent of GDP)



Source: IMF staff estimates and projections.

### **Bank of Central African States: Safeguards Assessment**

The Bank of Central African States (BEAC) is the regional central bank of the Central African States, which includes Gabon. A previous safeguards assessment of the BEAC was completed in July 2001. The assessment identified several vulnerabilities in the BEAC's safeguards and remedial actions to address the vulnerabilities were recommended. In the context of periodic monitoring of regional central banks, a new safeguards assessment of the BEAC is underway and will include a follow-up on the previous safeguards assessment recommendations. Some of the 2001 recommendations remain outstanding. A summary of the recommendations made in the previous safeguards assessment were reported in Country Report 04/28.

## **Gabon: Statistical Issues**

Gabon's economic database is fairly comprehensive. While data are generally compiled in accordance with international standards, consistency between sectors is poor, raising questions about the quality of the data. Detailed economic and financial statistics, including long historical time series, are published in the *Tendances de l'Economie*, issued on a semiannual basis by the General Directorate of Statistics and Economic Studies (DGSEE) of the Ministry of Planning; more recent sectoral developments are described in detail in the *Tableau de Bord de l'Economie*, issued on a quarterly basis by the General Directorate for the Economy (DGE) of the Ministry of Economy, Finance, Budget, and Privatization.

An Inter-institutional Statistics Committee to improve macroeconomic data gathering, compilation, and dissemination was established in 1999, in response to STA and FAD recommendations. Following the detection of questionable accounting practices by audits of central government finances and domestic public debt in 1998, the fiscal data, national accounts, and balance of payments statistics for 1997–98 have been revised. As a result, there have been delays in reporting consistent data to the Fund, although the timeliness has improved recently.

Gabon is a participant in the General Data Dissemination System (GDDS). Metadata about Gabon's national statistical systems, including plans for improvement, were first posted to the GDDS pages on the Fund's Dissemination Standards Bulletin Board on September 20, 2002.

### **National accounts**

Annual national accounts data were revised and updated for the period 1985–96, and the base for the calculation of aggregates at constant prices was changed from 1989 to 1991. These data were prepared by the DGSEE. Provisional estimates of national accounts data for the 1997–98 period have been prepared by the Inter-institutional Statistics Committee and the DGE but have not yet been finalized. The coverage of developments in the oil and other key export sectors is based on a range of indicators that may not fully capture the profits generated by these sectors. Despite recent improvements in collecting and processing oil sector statistics, significant inconsistencies remain between national accounts and the balance of payments statistics. In addition, more frequent household surveys are required to improve the quality and quantity of data available on income distribution and consumption. The staff and the authorities are working closely to establish a more consistent database.

### **Employment and unemployment**

Detailed annual data on employment are available for all sectors of the economy until 1997, including a breakdown of employment between the public and private sectors. However, data on unemployment and the total labor force are not systematically available.

## Prices

Monthly consumer price indices for low- and middle-income households are available only for the capital city of Libreville. These indices are based on an outdated family expenditure survey of 1968–69 and attach a large weight to prices of food and basic consumer goods. The “new” household budget survey of 1993 should allow for the development of a more representative index, when it is introduced.

## Government accounts

A multisector statistical mission, which covered government finance statistics, visited Gabon in May–June 1998. Furthermore, a review of budgetary procedures and expenditure control in Gabon was completed by a FAD technical assistance mission in April 1995 and updated in April 1999 and May 2000. The recommendations of the FAD missions, which had characterized government financial management as lacking discipline and transparency, are being implemented, as well as many of the measures recommended by the 1999 audits of central government finances and domestic public debt.

The main deficiencies in government finance statistics relate to a lack of comprehensive coverage of the available data, involving notably special treasury accounts, ministries’ own expenditures outside the budget, and social security operations. As a result of the 1999 audit of central government finances, the deficiencies have been corrected. Available estimates for 1997, 1998 and 1999 now reflect a comprehensive coverage of central government finances, although the social security operations are not included in government finances. Other needed improvements relate, inter alia, to the statistical treatment of oil companies’ tax advances, the need to record in the budget accounts government investment financed by oil companies, and the recording of government domestic payment arrears.

## Monetary statistics

Monthly monetary data for Gabon, as well as for the other members of the Central African Economic and Monetary Community (CEMAC), are reported on a regular basis, although with some delays. The data are reported in electronic form by the regional central bank (BEAC) and published in *International Financial Statistics (IFS)*. The institutional coverage of the monetary statistics is comprehensive, but accuracy is affected by cross-border movements of currency among CEMAC member countries. In the case of Gabon, however, the magnitude of imported notes is smaller than in other countries in the region. About 94 percent of notes in Gabon are nationally issued; the remaining are from the Republic of Congo, Cameroon, and Equatorial Guinea. Gabon exports about 18 percent of its notes, most of which go to Cameroon (13 percent) and to the Republic of Congo (3 percent).

The monetary and financial statistics mission that visited the BEAC headquarters (May 2001) provided technical assistance in addressing the main shortcomings pertaining to coverage, methodology, compilation procedures, and timeliness of monetary statistics. The mission discussed an action plan for the implementation of the *Monetary and Financial Statistics Manual (MFSM)* and for the introduction of an area-wide page in *IFS* for the CEMAC.

Following the 2001 mission, a regional workshop on monetary and financial statistics was organized by the BEAC in Libreville (Gabon) in May 2002 to support the implementation of the *MFSM* in the CEMAC countries. The new page for CEMAC was published in the January 2003 issue of *IFS*.

### **External public debt**

Comprehensive data on the outstanding stock of external public debt and its composition, together with detailed projections on debt service due, are available and provided (usually to Fund missions) by the General Directorate of Public Debt and Accounting (Direction générale de la comptabilité publique) of the Ministry of Economy, Finance, Budget, and Privatization. Comprehensive data on the composition of external public debt for the period prior to 1994 are not available.

### **Balance of payments and trade statistics**

As in most other countries of the CEMAC, balance of payments data are compiled and disseminated by the national agency of the BEAC for Gabon. The compilation process involves a close cooperation between the BEAC headquarters and the national agency for Gabon since the BEAC headquarters calculates the national contribution in the international reserves it holds and manages on behalf of all six countries. The headquarters also validate the draft results and run consistency checks against the guidelines adopted for the whole monetary union.

Annual data are produced along the lines of the recommendations of the fourth edition of the *Balance of Payments Manual (BPM4)*. However, since 1995, the dissemination of balance of payments statistics has been in accordance with the presentation of the fifth edition of the *Balance of Payments Manual (BPM5)*. Source data are primarily reported through (i) surveys of enterprises by the central bank (main source of data); (ii) reports from banks and the postal administration on foreign exchange transactions of other enterprises, retailers, and private individuals; and (iii) BEAC reports on banknotes issued by Gabon and returned by other BEAC countries.

Source data have several shortcomings: imports and exports of goods are collected from surveys among enterprises, while trade data on the three main exported products (oil, wood, and manganese) are derived from the volume exported and adjusted by average market tariffs. Customs data are not used for exports because of their weak reliability and long delays in availability, although import data are derived from customs sources. External trade sources are therefore mostly based on estimates, which are not cross-checked with customs data. The reliability of other items of the current account suffers due to the low response rate to the enterprise surveys in spite of partial correction through adjustments. Foreign direct investments in the financial accounts are likely to be underestimated owing to the insufficient detail of the oil sector survey. The overall magnitude and detailed breakdown of private capital flows, particularly those related to the short term, suffer from a lack of comprehensiveness.

Balance of payments data are disseminated with considerable delays, and the most recent data refer to 2001. The multisector mission that visited Gabon during May 1998 proposed several short- and medium-term recommendations on balance of payments statistics. The authorities have not reported the progress made in implementing the recommendations made by that mission.

**Public enterprise sector**

While a fairly good database exists on the operations of public enterprises, information is communicated to the staff on an ad hoc basis, notably during Fund missions. At present, data provided cover only the wholly owned and mixed enterprises in which government equity participation is at least 25 percent.

Gabon: Core Statistical Indicators  
(As of April 7, 2004)

Exchange Rates <sup>1</sup>	International Reserves	Reserve/ Base Money	Central Bank Balance Sheet	Broad Money	Interest Rates <sup>2</sup>	Consumer Price index	Exports and Imports	Current Account Balance	Overall Government Balance	National Accounts	External Debt
04/06/04	01/31/04	01/31/04	01/31/04	01/31/04	03/25/04	02/29/04	12/31/03	12/31/03	01/31/04	2003	01/31/04
04/07/04	04/06/04	04/06/04	04/06/04	04/06/04	04/07/04	03/23/04	03/01/04	03/01/04	03/15/04	03/01/04	03/15/04
D	M	M	M	M	M 1/	M	M	A	M	A	M
D	M	M	M	M	V 1/	M	A	V	M	V	M
N	A	A	A	A	A	A	A	A	A	A	A
O 2/	E	E	E	E	E	E	V	V	C	V	E
C	A	A	A	A	C	A	A	A	A	A	A
D	M	M	M	M	M	M	A	A	Q	A	A

Date of latest observation

Date received

Frequency of data<sup>3</sup>

Frequency of reporting<sup>3</sup>

Source of data<sup>4</sup>

Mode of reporting<sup>5</sup>

Confidentiality<sup>6</sup>

Frequency of publication<sup>3</sup>

<sup>1</sup> Information communicated to staff as interest rates are adjusted.

<sup>2</sup> As reported in the daily Morning Press (euro exchange rate).

<sup>3</sup> D = daily; M = monthly; Q = quarterly; A = annually; V = staff visits.

<sup>4</sup> N = none; A = direct reporting by central bank, Ministry of Finance, or other official agency.

<sup>5</sup> O = official; E = electronic data transfer; C = cable or facsimile; V = staff visits.

<sup>6</sup> A = For use by staff only; B = for use by the staff and the Executive Board; C = unrestricted use.

INTERNATIONAL MONETARY FUND

GABON

**Request for Stand-By Arrangement  
Supplementary Information**

Prepared by the African Department

(In collaboration with other departments)

Approved by Siddharth Tiwari and Juha Kähkönen

May 25, 2004

1. This supplement reports on budgetary data through end-March 2004 received since the issuance of the staff report and the implementation of the other prior actions for Board consideration of the request for Stand-By Arrangement.
2. Preliminary data on budgetary execution through March indicate that fiscal performance was in line with the program, and that all the quantitative targets for end-March were met with comfortable margins (Table 1). Non-oil revenue was higher by 0.5 percentage point of GDP, mainly on account of enhanced collection of corporate profit taxes and property taxes. A small excess of CFAF 12 billion (0.4 percent of GDP) was also recorded in oil revenue, reflecting oil prices for the Brent higher than assumed under the program (US\$32 per barrel versus US\$30 in the program) (Table 2). Expenditures, including the wage bill, were contained within the agreed limits, while spending in the sectors of education, health and social assistance was consistent with the established targets. The targets on the net claims of the banking system on the central government and on the primary fiscal balance were met with margins equivalent to 0.7 percent and 0.6 percent of GDP, respectively. In April and during the first half of May, the price for the Brent averaged US\$ 35 per barrel, which is estimated to have resulted in higher oil revenue of CFAF 20 billion (0.6 percent of GDP) during the two months.
3. The authorities have implemented all the other prior actions:
  - On May 18, the government adopted a letter of development policy for the forestry sector, prepared in consultation with the World Bank, which includes the main policy reforms for the sector. The letter contains the key features of the reforms called for by the World Bank, including the principle of granting forestry concessions through an auction system, enhanced transparency through the publication of the list of forestry concessions and concession holders, a moratorium on the attribution of new concessions pending the introduction of the auction system, and termination of concessions for concession holders that do not comply with their tax obligations. The

letter is expected to be strengthened further in the context of the preparation of the Forestry and Environment project in cooperation with the World Bank and other donors, expected to be finalized before end-2004.

- On May 20, a consultant was selected, through an international tender, to conduct an in-depth study for the restructuring of the timber marketing board SNBG, on the basis of terms of reference approved by the World Bank.
  - On May 10, Fund staff received a report on SNBG's implementation of the cost-cutting measures adopted by the company's board on December 19, 2003. Spending during the first quarter of 2004 was 16 percent below budget limits.
  - The set of measures to reduce the wage bill became effective during the month of April following instructions of the Prime Minister and the Minister of Finance.
  - A decree signed by the Prime Minister on April 26 abrogated the April 2 decree, which had widened the list of products under the price surveillance regime.
4. In early May, the Senate approved the new general civil service statute providing for a merit-based promotion system. The law is now with the National Assembly.
  5. On May 14, in a letter to the President of the World Bank, the authorities expressed their interest in joining the Extractive Industries Transparency Initiative (EITI).

Table 1. Gabon: Quantitative Performance Criteria and Indicative Targets Under the Stand-By Arrangement, 2003–04

(In billions of CFA francs; cumulative flows from January 1st) 1/

	2003 Dec. Est.	2004					
		Target	Mar. Est.	Deviation	Jun. Program	Sep. Program	Dec. Program
<b>Performance criteria</b>							
Ceiling on the net claims of the banking system on the central government 2/	15.8	6.2			-27.0	-35.3	-48.6
Adjusted target 2/	...	2.7	-22.4	-25.1			
Ceiling on the contracting or guaranteeing of new nonconcessional external debt with maturity of over 1 year by the central government 3/	8.7	65.0	0.0	-65.0	80.0	96.0	96.0
Ceiling on outstanding stock of new nonconcessional external debt with original maturity of one year or less owed or guaranteed by the central government 4/	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ceiling on the accumulation of external payments arrears by the central government 5/	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stock of arrears on domestic debt of the central government 6/	21.2	14.2	14.1	-0.1	13.1	7.3	3.0
Floor on the primary fiscal balance of the central government, excluding grants and foreign-financed investment (on a payment order basis) 7/	410.3	84.1			180.4	248.2	359.6
Adjusted target 7/	...	96.0	116.6	20.6			
<b>Indicative targets:</b>							
Floor on non-oil central government revenue	478.9	108.5	124.5	16.0	245.7	364.7	513.4
Ceiling on the central government wage bill on a payments order basis	229.0	58.8	55.4	-3.4	111.9	168.6	226.0
Ceiling on total noninterest domestic expenditure of the central government, on a payments order basis 8/	638.8	159.1	154.5	-4.6	312.7	473.7	661.9
Floor on current expenditure for the sectors of education, health, and social assistance	...	7.1	7.2	0.1	15.4	23.8	33.1
Floor on the net reduction of unpaid payments orders at the treasury 9/	-74.9	-8.9			-16.3	-28.8	-57.1
Adjusted target 9/	...	-20.8	-29.4	-8.6			
<b>Memorandum items:</b>							
Nonproject external financing disbursements (excluding IMF)	1.2	1.2	0.0	-1.2	3.2	50.9	52.9
External debt service due (excluding IMF)	309.7	84.7	83.6	-1.1	146.3	253.6	338.3
Domestic debt service due	85.7	19.3	17.8	-1.5	38.5	59.6	77.3
Oil revenue	570.2	134.7	146.6	12.0	247.3	357.3	508.1
Rescheduling of external debt 10/	0.0	41.8	0.0	-41.8	391.4	436.7	471.5
Privatization proceeds	1.0	0.0	0.0	0.0	1.4	10.0	11.9

Sources: Gabonese authorities; and staff estimates and projections.

1/ Indicative targets for March 2004. Targets for June, September, and December 2004 are performance criteria under the Stand-By Arrangement.

2/ The performance criterion will be adjusted upward/downward for any lower/higher oil revenues, larger/lower payment of external debt service (net of nonproject external financing disbursements), larger/smaller net reductions in domestic arrears, and smaller/larger privatization proceeds, relative to program targets. The performance criterion will be revised upward for higher-than-programmed reduction in the float up to a limit of CFAF 13 billion. The performance criterion will be adjusted downward for unprogrammed rescheduling/deferment on domestic debt in excess of CFAF 13 billion.

3/ This performance criterion applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted by the IMF Executive Board on August 24, 2000, but also to commitments contracted or guaranteed for which value has not been received. Excluded from this performance criterion are rescheduling arrangements and purchases from the Fund. For purposes of this performance criterion, the term "nonconcessional" means that the debt has a grant element of less than 35 percent calculated on the basis of currency-specific discount rates that are based on the OECD commercial interest reference rates (CIRRs).

4/ Excluded from this performance criterion are rescheduling arrangements, purchases from the Fund, and normal import-related credits.

5/ The nonaccumulation of new external payments arrears will constitute a continuous performance criterion.

6/ As defined in paragraph 10 of the technical memorandum of understanding (TMU). The ceiling will be adjusted downward for unprogrammed rescheduling/deferrals.

7/ The performance criterion on the primary fiscal balance will be adjusted upward/downward for any higher/lower-than-programmed oil revenue.

8/ Noninterest spending excluding foreign-financed investment.

9/ Including the reduction of arrears on the wage bill and the payment of compensations for social violence. Excess oil revenue, or unprogrammed rescheduling/deferment on domestic debt, can be used for additional reduction of the float, up to CFAF 13 billion.

10/ These amounts represent end-2003 stock of arrears and the obligations falling due in 2004 that are reschedulable.



Table 2. Gabon: Fiscal Operations of the Central Government, 2001-04  
(In billions of CFA francs, unless otherwise indicated)

	2001		2002		2003		2004				
	Est.	Dec.	Est.	Dec.	Est.	Dec.	Est.	Mar.			
	09/2002	Law	Est.	IMFCR/04/28	Est.	IMFCR/04/28	Est.	Proj. Prel. est.			
Domestic (net)	46.7	-50.6	44.9	-27.1	-55.0	-62.7	-58.7	-94.2	-20.6	-39.1	
Banking system	144.7	-34.1	-51.5	-17.2	-4.4	8.8	32.5	7.1	15.8	6.2	-22.4
Bank of Central African States (BEAC)	109.5	-25.6	-92.9	-1.7	36.7	18.8	40.7	20.5	15.8	13.3	-19.2
Commercial banks	35.2	-8.5	41.4	-15.5	-41.1	-10.0	-8.2	-13.4	0.0	-7.1	-3.2
Nonbank sources	-98.0	-16.5	6.6	-9.8	-50.6	-71.5	-91.2	-92.6	-110.0	-26.7	-16.7
Domestic debt	-80.7	-59.2	-75.4	-19.3	-40.1	-57.6	-55.5	-62.2	-60.1	-13.3	-15.0
Oil company advances (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt Accounting Department (DGCP)	-72.9	-54.2	-69.1	-19.3	-39.6	-56.7	-52.4	-55.2	-55.3	-12.4	-11.6
Securitized commercial agreements	-66.9	-36.5	-36.0	-5.5	-11.0	-15.4	-15.4	-19.8	-19.8	-4.1	-4.1
Of which: advance payments	-10.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other (divers) 4/	-5.9	-17.7	-33.1	-13.8	-28.7	-41.3	-37.0	-35.4	-35.5	-8.4	-7.5
Regularization of civil servants' salaries (rappe/s)	-7.8	-5.0	-6.3	0.0	-0.5	-1.0	-3.1	-7.0	-4.8	-0.9	-3.4
Change in domestic arrears (on principal, -reduction)	6.1	-10.2	14.1	0.7	5.4	-16.6	7.9	-22.1	-11.6	-5.0	-14.0
Restructuring cost 5/	-5.6	-36.0	47.9	-1.9	-2.0	-2.5	-3.7	-11.3	-7.8	-2.5	-1.5
Social costs	-5.6	-16.7	-17.6	-1.9	-2.0	-2.5	-3.7	-11.3	-7.8	-2.5	-1.5
Public enterprise debt	0.0	-19.3	65.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Air Gabon	0.0	0.0	31.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CNSS	...	-10.0	36.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	-9.3	-2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic debt rescheduling/deferral	0.0	0.0	39.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	10.1
Sales of assets (shares, etc.) to be determined	0.0	94.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization proceeds	3.4	0.0	1.8	1.0	1.0	1.0	1.0	1.0	1.0	0.0	0.0
Other	-21.2	-5.0	-21.4	9.7	-14.8	4.2	-40.9	2.0	-31.5	-5.9	3.7
Treasury correspondents, including pensions	1.8	0.0	1.4	-5.4	-12.6	1.2	-22.5	1.0	-6.2	-2.2	-2.9
Local authorities 6/	-6.2	0.0	-7.9	2.3	2.6	3.0	-4.7	1.0	-1.9	-0.3	3.1
Cancellation of domestic debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Development bank of Gabon (BGD)	...	...	...	-0.1	-0.6	...	-0.8	...	-1.4	-0.5	-0.5
Other, including transactions between local and central treasury	0.0	0.0	0.0	0.0	0.0	0.0	-9.4	0.0	-13.5	-3.0	1.1
Errors and omissions	-16.8	-5.0	-14.9	12.9	-4.2	0.0	-3.6	0.0	-8.6	0.0	2.8
Financing gap 7/	0.0	190.0	0.0	0.0	0.0	125.5	0.0	156.2	0.0	41.8	0.0
Memorandum items:											
Primary fiscal balance, including grants (in percent of GDP)	12.0	9.5	7.9	4.9	8.4	8.5	9.9	10.9	11.4	2.4	3.4
Non-oil primary balance, including grants (in percent of non-oil GDP)	-16.8	-9.4	-16.8	0.0	-2.0	-4.6	-4.5	-8.2	-8.2	-2.4	-1.5
Stock of unpaid payments orders at the treasury	177.6	104.3	123.8	64.3	51.0	86.3	59.5	77.1	72.9	69.1	50.6
Fund for Future Generations (balance)	0.0	...	70.4	...	9.3	...	20.0	...	30.0	16.8	16.5

Sources: Gabonese authorities; and staff estimates and projections.

1/ The 2002 budget column includes CFAF 16.5 billion for telephone bills relating to 2001, which the authorities had classified under domestic debt repayment in the draft budget.  
2/ For 2001: equity participation in Compagnie Minière de l'Ogooué (COMILOG) (CFAF 4.1 billion), advance to OPT (CFAF 6.6 billion), the payment of Air Gabon's debt (CFAF 14.2 billion), and down payments for the purchase of airplanes for Air Gabon (CFAF 13 billion). For 2002: assistance to Air Gabon; and repayment of the CFAF 6.6 billion advance to Gabon Télécom (for the acquisition of a marine cable).

3/ "Other float at the treasury" includes mainly variations in consignments and operations with autonomous bodies.

4/ Including old debt repayments to Société d'Eau et d'Énergie de Gabon (SEEG), National Social Security Fund (CNSS), and Office des Postes et Télécommunication (OPT), as well as debt service on new debt agreements with Gabon Télécom, Gabon Poste, Air Gabon's suppliers, and CNSS. During the last quarter of 2003, there was a deferral of debt obligations amounting to some CFAF 11 billion.

5/ Restructuring costs refer to social costs of privatization and voluntary departures. During 2002, the government also took over suppliers' credit to Air Gabon and debt owed by public enterprises to CNSS, for CFAF 31 billion and CFAF 36 billion, respectively.

6/ Local authorities consist of variations in local entities' account balances with the treasury.

7/ The financing gap for the program period is expected to be covered by debt rescheduling.



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May 28, 2004

International Monetary Fund  
Washington, D.C. 20431 USA

### **IMF Approves 14-Month US\$102 Million Stand-By Arrangement for Gabon**

The Executive Board of the International Monetary Fund (IMF) today approved a 14-month SDR 69.44 million (about US\$102 million) Stand-By Arrangement for Gabon to support the country's economic program. The approval opens the way for the immediate release of SDR 13.888 million (about US\$20 million).

Following the Executive Board discussion, Anne Krueger, Acting Managing Director and Chairman, said:

“Since mid-2002, Gabon has taken important policy actions to address the serious challenges stemming from declining oil production, a heavy debt burden, and weak social indicators. A staff-monitored program, covering the period September-December 2003, was implemented in a broadly satisfactory manner. Measures have been taken to strengthen the public finances and advance structural reforms, in order to boost non-oil economic growth. In addition, Gabon has taken steps toward improved governance, including participation in the Extractive Industries Transparency Initiative.

“The authorities’ economic program for 2004-05, supported by the Stand-By Arrangement, aims at strengthening the adjustment effort. It emphasizes continued fiscal adjustment to free resources for the private sector, reduce financing gaps, and contain the debt burden, as well as improved public expenditure management to direct resources to priority sectors. The program also seeks to deepen structural reforms, including privatization and governance at all levels of the public administration, in order to promote growth in the economy’s non-oil sector and place the public debt on a sustainable path.

“The program provides for a reduction in the public sector wage bill, following increases in recent years, and curtailment of other current expenditure, while capital expenditure would increase modestly. The efficiency of public investment is to be improved, particularly through the preparation of medium-term expenditure frameworks for key sectors, including health and education, which will have to be consistent with the priorities outlined in the Poverty Reduction Strategy Paper (PRSP) under preparation. The PRSP, which is being prepared through a broad consultative process, is expected to be finalized in early 2005. The financial positions of the local authorities and the long-term viability of social security agencies are being strengthened.

“The authorities attach priority to the reforms under way in the key forestry sector. The preparation of a letter of development policy for the forestry sector confirms their commitment to the principles of sustainable development and transparency in the management of forestry resources. In addition, the role of the timber marketing board will be re-defined through a comprehensive study to be carried out in the coming months, in order to improve the efficiency of the timber exporting process.

“Despite some improvements in macroeconomic performance and the strengthened outlook for private investment as a result of recent privatizations, the authorities will need to vigorously implement the economic program to ensure its success. In particular, the program depends crucially on growth in the non-oil sectors of the economy. Progress in program implementation will therefore need to be monitored carefully,” Ms. Krueger said.

## **ANNEX**

### **Recent economic developments**

Gabon's economy continues to face major challenges, including a drop in oil production, a heavy debt burden, and weak social indicators. Following a pattern of intermittent adjustment and recurrent excess spending, the authorities have shown since mid-2002 a new resolve to address these challenges through sustained fiscal adjustment and comprehensive structural reforms. Efforts in the second half of 2002 focused on improving governance, reforming tax and customs administrations, strengthening the Budget and Treasury Departments, restructuring public enterprises, and promoting private investment. An austerity budget was adopted for 2003, which aimed at raising non-oil revenue and reducing substantially the non-oil primary fiscal deficit; its implementation in the first half of 2003 was satisfactory. This led to improved policy performance during 2003, and in particular under the staff-monitored program (SMP) covering the period September-December 2003.

Macroeconomic performance in 2003 was generally positive. A higher-than-anticipated rise in oil GDP more than offset lower-than-expected growth of non-oil GDP. As a result, total real GDP grew by 2.8 percent in 2003, as opposed to a stagnation projected under the SMP. The 12-month inflation rate continued to be subdued, at 2 percent, in line with the program.

The pace of structural reforms has accelerated since mid-2002, as the authorities took steps to strengthen significantly the budgetary management capacity, improve governance, and foster private sector development. Key reforms include restructuring and preparing the privatization of public enterprises, the adoption of the anti-corruption legislation, the revamping of the computerized budget information system, and the reform of the procurement code.

### **Program summary**

Gabon's economic program, which is supported by the Stand-By Arrangement, seeks to create conditions for sustained economic growth and poverty reduction. The program aims at fostering non-oil sector growth and the diversification of the economy through sustained fiscal adjustment and comprehensive structural and social reforms.

The fiscal adjustment, which will rely mainly on containing current expenditures, aims at a reduction in the non-oil primary deficit, so as to maintain a significant overall budgetary surplus despite the decline in oil revenue, and help to further reduce the public debt-to-GDP ratio.

The structural measures, directed at fostering non-oil growth, will center on further progress in the privatization process, the implementation of reforms in the forestry sector, and the strengthening of key infrastructure, in the context of a well-targeted public investment program for 2004-06. The program will also include measures to further solidify the banking system, and to strengthen the financial system so as to support the development of small and medium-sized enterprises, agriculture, and residential construction.

When finalized, a well-focused Poverty Reduction Strategy, with detailed plans for the priority social sectors, will represent an essential instrument for prioritizing the public expenditure effort in a coherent medium-term framework, and ensuring accountability and close monitoring of progress in improving social indicators and achieving the Millennium Development Goals.

Gabon: Selected Economic and Financial Indicators, 2000-2006

	2000	2001	2002	2003	2004	2005	2006
	Projections						
	(Annual percent change)						
Domestic economy							
Real GDP growth	-1.9	2.0	0.0	2.8	2.0	-0.7	0.6
<i>Of which:</i> oil	-10.2	-5.7	-1.4	7.6	-0.6	-11.7	-9.3
non-oil	2.1	5.3	0.6	1.0	3.0	3.5	3.8
Consumer price inflation, average	0.4	2.1	0.2	2.1	2.0	2.0	2.0
	(In percent of GDP)						
Gross fixed investment	21.8	25.8	24.4	23.9	25.7	26.2	26.3
Gross national savings	41.5	36.8	29.6	34.4	31.5	27.7	25.8
	(In millions of U.S. dollars) 1/						
External sector							
Exports, f.o.b.	3,329.7	2,616.2	2,597.9	3,243.5	3,380.8	2,862.3	2,629.8
Imports, f.o.b.	-800.2	-848.2	-956.4	-1,084.5	-1,236.1	-1,235.8	-1,258.4
External current account balance (including grants)	1,003.7	517.9	256.4	634.2	365.8	94.5	-31.9
In percent of GDP	19.7	11.0	5.2	10.5	5.8	1.5	-0.5
External public debt (in percent of GDP) 1/	57.1	63.1	62.7	55.9	58.6	60.7	61.6
Real effective exchange rate (in percent change, average)	-6.9	1.7	0.7	3.4	...	...	...
	(In percent of GDP, unless otherwise indicated)						
Financial variables							
Central government revenues (excluding grants)	33.4	34.0	31.5	29.8	30.2	29.3	27.9
<i>Of which:</i> non-oil	10.9	12.2	13.9	13.6	15.2	16.8	17.8
Total expenditure	21.7	30.8	28.1	22.4	25.0	24.8	25.0
Primary balance (payments order basis, excluding grants)	17.5	12.0	7.9	11.4	10.3	8.6	7.0
Overall balance (payments order basis, excluding grants)	11.6	3.2	3.5	7.4	5.4	4.7	3.1
Change in broad money (in percent)	18.0	7.5	5.7	-1.2	5.3	5.3	5.5

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

1/ Including obligations to the Fund, and new borrowing.

**Statement by Damian Ondo Mañe, Executive Director for Gabon**  
**May 28, 2004**

On behalf of my Gabonese authorities, I would like to express my appreciation to Management and staff for their continuous advice and support, in particular, in the design of the comprehensive program of economic and structural adjustments. I would also like to thank staff for their report which describes well the major challenges facing Gabon, and the determined efforts of my authorities to address these challenges, which include declining oil production, high external debt and weak social indicators.

Fully cognizant of the challenges faced by the country and the need to change course, my authorities adopted in 2003 a medium-term adjustment program for the period 2003-2006. The objectives of this program, which has achieved broad consensus, is to diversify the economy, accelerate growth, and reduce poverty. The program also includes measures to speed up the privatization process, improve governance, and enhance the investment climate.

The measures undertaken were focused on strengthening of budgetary management, reforming tax and customs administrations, improving the functioning of the Budget and Treasury Departments, restructuring the public enterprises, establishing the National Commission Against Illicit Enrichment (CNLEI) and the adoption of an ethics code for civil servants, among others. These efforts were supported by a staff monitored program, and performance under the program was satisfactory. These policies were consistent with the medium term program, and with the objectives of the authorities' poverty reduction strategy.

Moreover, my authorities would like to point out that all quantitative targets for end-March 2004 were met. It is to be noted also that non-oil revenue was higher than programmed, and that expenditures, including the wage bill, were contained within the agreed limits. The authorities have also implemented all prior actions, and on May 14, they indicated to the President of the World Bank Gabon's interest to join the Extractive Industries transparency Initiative (EITI).

My Gabonese authorities are very much encouraged by the successful implementation of the SMP, and the results achieved. They are of the view that the measures implemented have laid a good foundation for a strengthening of the adjustment program, and to address the major challenges facing the Gabonese economy, and which include a vulnerable external sector and high debt service. The reform efforts are being implemented in a medium term context, and are also aimed at restructuring the economy and strengthening the non-oil sector. In this regard, my Gabonese authorities are requesting Fund support for a 14-month stand-by arrangement, with an access of SDR 69.44 million, corresponding to 45 percent of Gabon's quota in the Fund.

### **I. Recent Economic Developments and Performance under the SMP**

Economic and financial performance in 2003 has been much better than programmed, with real GDP growing at 2.8 percent, higher than the projected 0.1 percent and the inflation

rate was 2 percent. The fiscal and external surpluses were larger than programmed, and the debt ratios were lower. A determined implementation of the policy measures in the program, and an improved oil sector environment helped in the over performance.

### **Fiscal Policy**

The fiscal consolidation initiated in 2002 has been pursued in 2003 and 2004. The ambitious fiscal adjustment effort and the improving economic and financial situation resulted in a reduction of the non-oil primary deficit from 16.8 percent of non-oil GDP in 2002 to 8.2 percent in 2003. On the revenue side, a shortfall in non-oil revenue was more than offset by higher oil revenue. On the expenditure side, total expenditures, excluding interests, decreased significantly from 23.7 percent of GDP in 2002 to an estimated 18.5 percent of GDP in 2003. All expenditure lines, except the wage bill, contributed to that decline.

The increase in the wage bill was due to the impact of regularization of the civil servants' administrative situation following the 2001 civil service census, and the recruitment in the security, education and health sectors. Although the financial impact of the reduction in the number of advisors at the Office of the President, and in the ministries and other institutions did not begin to be felt until December 2003, these measures were a strong signal of the government's intention to restructure the civil service. My authorities have taken further measures since April 1, 2004 which together with the adoption of new statutes of the civil service should help to reverse the trend in the wage bill.

Gabon is current with respect to the servicing of non-reschedulable debt and all non-reschedulable external arrears were cleared. At end-2003, payments of small amounts of debt-service and non-reschedulable external arrears were delayed, but these have been settled in early 2004.

### **Monetary and Financial Sector**

Credit to the economy contracted in 2003. This was due mainly to the large arrears payments by the government which in turn reduced its indebtedness to the banking system. A reduction in loans to the forestry sector also contributed to the contraction in credit. There was also an increase in provisioning by the commercial banks, as their portfolio deteriorated. Monetary policy which is conducted at the regional level by the *Banque des Etats de l'Afrique Centrale* (BEAC) was consistent with the fixed exchange rate regime, and geared at supporting the exchange rate peg with the euro. It contributed to maintaining the inflation rate low, and to the preservation of the competitiveness of the CFA franc, despite the appreciation in the real effective exchange rate due to the depreciation of the U.S. dollar against the euro.

### **Structural Reforms**

Significant progress was made in the area of structural reforms in the past two years. The reform measures have been in the areas of governance, public expenditure management

and public enterprises. Moreover, all the structural benchmarks included in the SMP were observed, with the exception of the benchmark relating to the adoption of the civil service ethics code which was met with a delay of one month, and the benchmark pertaining to the completion of the action plan for the restructuring of the timber marketing board.

As regards the forestry sector, the Gabonese authorities, with the assistance of the World Bank and the donor community, are implementing a comprehensive reform agenda. However, the study commissioned from an international firm and which came out in December 2003, did not address the main issues of concern to stakeholders, and did not help to gather a consensus on a restructuring plan. With World Bank assistance, a new consultant has been chosen for the study which is expected to be completed by November 2004. The letter of development policy, which was prepared with World Bank assistance, contains the main features of the reforms. These include the granting of concessions through an auction system, a freeze in the attribution of new concessions pending the introduction of the new system, and the termination of concessions by concession holders who do not meet their tax obligations.

In other areas, steps were taken to strengthen the **control of expenditures**, and significant progress was made in the **privatization process**, with the sale of the agribusinesses HEVEGAB and AGROGABON, the placement under private management concession of the two main ports and the placement under private management of the three *Caisse Nationale de Securite Sociale*'s (CNSS) hospitals. With regard to the telecommunications company, TELECOM, negotiations are underway with prequalified buyers.

On **governance**, the recommendations of the IMF Legal Department with respect to the CNLEI are being implemented with the establishment of two subcommissions on investigation, and prevention and education. The government adopted also an ethics code for government officials and the wealth declaration for public officials.

As regards the **improvement of the business climate**, my authorities abolished the General Directorate of Price Controls and created a General Directorate of Competition and Consumption instead. Moreover, the decree which had widened the list of products under price surveillance has been abrogated.

### **Social Truce**

In devising the medium-term program, my authorities were conscious that the success of its implementation would require a broad consensus as well as the participation and support of all stakeholders in the country. In that sense, my authorities initiated discussions with labor unions and employers' associations which led to an agreement on a social truce in September 2003. Under this agreement, the labor unions committed to refrain from wage increase claims in exchange for a commitment from the government to improve the functioning of the medical insurance system, restructuring the CNSS and regularizing the administrative position of civil servants. In addition, the government agreed to reduce the

VAT on a number of basic commodities. The revenue loss was compensated by VAT increases on luxury goods.

### **III. Program for April 2004 – June 2005**

Under the program for which an arrangement is requested, my authorities intend to maintain the stance of prudent policies already initiated, with a view to addressing the main challenges facing the Gabonese economy: projected decline of oil production, excessive debt burden and deteriorating social indicators. Development of a strong non-oil sector is also an important objective of the reform program, and will contribute to the achievements of a higher growth rate and to the reduction of poverty.

My authorities are aware that the increase in the oil sector has benefited from the current situation in the world oil market. While it has been an incentive to higher investments in the sector, thus boosting the extraction of oil, the authorities fully understand that this is only a temporary situation, and they do not believe that this will lead to a reversal of the declining trend. Accordingly, they remain committed to fiscal consolidation and structural reforms which are the cornerstones of the adjustment program. They will also continue the implementation of their ambitious reform agenda, in order to improve governance and the business climate, and will pursue the finalization of their PRSP.

In light of the projected decline in oil production, total real GDP is expected to grow by only 0.7 percent on average in 2004- 2005. However, with the efforts underway to promote non-oil sector, my authorities project a non-oil GDP growth of 3 percent in 2004 and 3.5 percent in 2005. The average annual inflation is expected to be around 2 percent, while the fiscal and current account surpluses are projected to shrink.

#### **Fiscal policy**

Over the arrangement period, my authorities intend to continue improving the public finance management through the strengthening of tax and customs administrations and a better control and streamlining of budgetary spending. With the effective implementation of fiscal measures related to forestry sector, enhanced tax arrears collections and the strengthened control of tax payers, my authorities project a slight increase in non-oil revenue of 0.4 percentage points of non-oil GDP in 2004 and a further 0.6 percentage points in 2005. Oil revenues are projected to decline from 16.2 percent of GDP in 2003 to 15.0 percent. Should oil projections be met, my authorities intend to replenish the Fund for Future Generations with 10 percent of oil revenues.

The primary expenditure is projected to decline by 1.3 percentage points of non-oil GDP between 2003 and 2005, to 30.5 percent. This will result mainly from cuts in the wage bill as explained in paragraph 22 of the MEFP and further tightening of expenditures related to security and public utility consumption. Social spending will be maintained and will be monitored closely. Likewise, room will be created to increase gradually public investment which is expected to reach 7.5 percent of non-oil of GDP in 2005 against 6.4 percent in 2003. My authorities intend to initiate a thorough assessment of its system of scholarships

allocations, for which they will seek technical assistance from donors, and are contemplating the restructuring of the pension system. As a result of the measures taken, the non-oil deficit will be reduced from 8.2 percent of non-oil GDP in 2003 to 5.7 percent in 2005, indicating the serious and strong fiscal adjustments being undertaken.

### **Monetary Policy and Financial Sector Issues**

Monetary policy pursued at the regional level has been beneficial to the country, and the authorities will continue to adhere to the required fiscal convergence criteria. Thus, they will continue the fiscal consolidation efforts which will allow for a reduction of net credit to government while accommodating bank credit to the private sector.

The banking system remains sound, but weaknesses identified in the FSAP are being addressed gradually, most of them at the regional level. Thus, COBAC, the regional banking commission, has strengthened the regulations relating to surveillance of foreign exchange position, provisioning of bad debts and risk coverage and diversification by credit institutions. Likewise, CEMAC adopted regulations with respect to operating conditions for microfinance institutions in 2002 and anti-money laundering recently.

### **Structural Reforms**

My authorities remain convinced that wide-ranging structural reforms are essential to facilitate diversification of the economy and reduce poverty.

In the **forestry sector**, measures related to the fiscal and regulatory framework will be implemented in accordance with the letter of development policy, and with the assistance of the World Bank and donors. The letter which was adopted by the government on May 18 contains the main features of the reforms, as noted above.

The **privatization** process will be pursued. In this context, a successful bidder for 35 percent of shares of GABON TELECOM is expected to be selected by end-September 2004. The restructuring of AIR GABON is continuing in accordance with the operational and financial plan for the 2004-2006 period. An operating surplus before depreciation is expected to be achieved in 2004. In agreement with the AfDB, a consulting firm has been appointed to conduct a study on how to restructure GABON POSTE, the postal company. The study which started in March 2004 is expected to be completed by end-August 2004.

My authorities are hopeful that the forthcoming diagnostic study by the Foreign Investment Advisory Service (FIAS) of the International Finance Corporation (IFC) on the business climate will shed more light on the impediments to **private sector development**. It is expected that this study will be completed in 2005 and be part of World Bank Private Sector Development/Diversification project in the context of its Country Assistance Strategy. Meanwhile, efforts are being made to improve the road network and other infrastructure, the operation of one-stop shop for investors and the functioning of the judicial system to support the expansion of private sector activity. On **governance**, a first activity report from the CNLEI is expected at end-2004.

My authorities have reassessed the timetable for the completion of their full PRSP, and a full **PRSP** is expected in the first semester of 2005. The document will be an essential element in the development of policies and to monitor progress towards achieving the Millennium Development Goals.

Besides the structural measures being implemented, my authorities will also continue to implement policies to improve the competitiveness of the economy through costs cutting and elimination of rigidities. The authorities expect that the policies they are pursuing in the area of education will help to improve the efficiency and productivity of the labor force.

### **Debt Issues**

Gabon's debt burden remains extremely heavy. The staff baseline debt sustainability analysis (DSA) indicates that the external-debt-to-GDP ratios will increase moderately from 53 percent in 2003 to about 62 percent by 2006, but will decline steadily thereafter, as non-oil GDP growth picks up. As oil revenue declines, the scenarios also indicate that debt-service ratios will increase to almost 32 percent for debt service-to-exports ratio and to about 49 percent for debt service-to-revenue ratio by 2012. Given the high vulnerability of Gabon to external shocks, these ratios could worsen, despite the adjustment efforts of the authorities. In view of the financing gap in 2004 and 2005 resulting from high debt services, my authorities intend to request debt rescheduling from Paris Club creditors.

### **Conclusion**

Overall, my authorities are of the view that the economic performance in the past two years, including under the SMP, is an indication of their strong commitment to the adjustment process. This performance is also an indication of the determination of the authorities to restructure the economy, and to make it less oil-dependent, while addressing the other challenges. However, the adjustment efforts cannot be maintained without the assistance of the international community. With the satisfactory implementation of the SMP, my authorities believe that they have built a sufficient strong track record to benefit from such assistance. To reiterate, my authorities are requesting Fund support under a Stand-by Arrangement for the period April 2004 – June 2005, and I would like to request the support of my colleagues for Gabon's request. Gabon also intend to request debt restructuring from Paris Club creditors. As additional assistance will be required, my Gabonese authorities would like the Fund, in its catalytic role and as a trusted advisor, to communicate to donors and creditors of the new track record, and the strong commitment to the reform process.

Let me also add that given the heavy external debt burden, and the vulnerability of the country to external shocks, a more flexible approach to the debt problem of Gabon will also be needed. In this regard, it is to be noted that despite being classified as a middle income country, Gabon has all the social characteristics of a low income country, and that it also has the debt profile of many HIPC's. My authorities are hopeful that donors and creditors will take this into consideration.

The success of the authorities' medium term program should not be measured by the achievement of debt sustainability only. The most important objective should be the achievement of fiscal sustainability, over the medium term, which will allow the country to meet its financial needs, including debt servicing, poverty reduction and economic development. New sources of growth will also need to be identified and a strategy put in place to develop the economy, and enable it to meet the MDGs. My Gabonese authorities expect that the present program will lay the foundation for a more ambitious medium term program that can help to achieve these objectives.