

Gabon: 2003 Article IV Consultation and Staff-Monitored Program—Staff Report; Staff Supplement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Gabon

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2003 Article IV consultation with Gabon and staff-monitored program for Gabon, the following documents have been released and are included in this package:

- the staff report for the 2003 Article IV consultation and staff-monitored program, prepared by a staff team of the IMF, following discussions that ended on **October 1, 2003**, 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 October 27, 2003.** 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 staff supplement of **November 5, 2003** updating information on recent developments.
- a Public Information Notice (PIN) summarizing the **views of the Executive Board as expressed during its November 10, 2003 discussion** of the staff report that concluded the Article IV consultation.
- a statement by the Executive Director for Gabon.

The document(s) 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*
Statistical Annex
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

Staff Report for the 2003 Article IV Consultation and Staff-Monitored Program

Prepared by the African Department

(In collaboration with other departments)

Approved by Amor Tahari and Juha Kähkönen

October 27, 2003

- The Executive Board completed Gabon's 2001 Article IV consultation on April 1, 2002. Performance under the 18-month Stand-By Arrangement approved on October 23, 2000 was mixed, and only the first two reviews were completed.
- Against a backdrop of declining oil production and low growth in the non-oil economy, the authorities have requested Fund support for a program designed to adjust the economy through fiscal reforms and the removal of impediments to private sector development. To strengthen the track record, a staff-monitored program has been established through end-2003. The letter of intent and memorandum of economic and financial policies are attached to this report.
- A staff visit to assess performance in 2002 and progress in policy implementation took place in Libreville during February 4–12, 2003. Discussions on the 2003 Article IV consultation and a medium-term reform program were held in Libreville during March 27–April 10, 2003. Further discussions on the program took place at headquarters during the periods July 23–25, August 25–29, and September 29–October 1, 2003. The staff team comprised Messrs. Sacerdoti (head), Ntamatungiro, Stern, Blavy (all AFR), and Ms. Guillé (Assistant, TGS). Mrs. Glennerster (PDR) participated in the last set of meetings. Mr. Nguema Affane, Advisor to the Executive Director for Gabon, participated in the meetings. The mission worked closely with the World Bank staff on structural issues. The mission had meetings with Mr. Toungui, the Minister of State in charge of Finance, Economy, Budget, and Privatization; other ministers and senior officials from the Ministry of Planning, the Ministry of Civil Service, and the Ministry in charge of Anticorruption and Poverty Reduction; the National Director of the regional central bank (BEAC); and other senior government officials. The mission also met with members of the Constitutional Court and representatives of the private sector.
- Municipal and senatorial elections were held in December 2002 and February 2003, respectively. These elections, like the parliamentary elections organized in December 2001, were won by the President's ruling party (Parti Démocratique Gabonais, PDG) and its allies. The next presidential elections are scheduled for late 2005.
- Gabon has accepted the obligations of Article VIII, Sections 2(a), 3, and 4, and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions. The authorities have consented to publish the staff report.

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EXECUTIVE SUMMARY

- **The continued decline in oil production and the absence of sustained adjustment policies have contributed to Gabon's uneven economic performance over the past three years.** Oil production dropped by about 17 percent between 1999 and 2002, although in 2002 the decline was very small. Activity in the non-oil sector, which in 2000 and 2001 showed significant recovery after the recession of 1999, weakened markedly in 2002, when real growth fell to less than 1 percent.
- **Following the weakening of public finances in 2001, in 2002 the authorities made efforts to strengthen fiscal management, but these were hampered by overruns in security and sovereignty expenditures and by support for public enterprises.** On the positive side, in 2002, non-oil revenue increased by 1.7 percentage points of GDP to 13.9 percent, reflecting improved revenue collection efforts, including a revamping of tax administration.
- **The pace of structural reforms has accelerated since mid-2002, as the authorities took steps to strengthen budgetary management capacity, improve governance, and foster private sector development.** These reforms included the adoption of the anticorruption legislation, the revamping of the computerized budget information system, the reform of the procurement code, and the finalization of financial audits of oil companies.
- **In early 2003 budgetary targets were established in consultation with Fund staff for the first half of 2003, in order to establish a track record.** The fiscal targets for end-June 2003 were met, with a shortfall in non-oil revenue offset by lower expenditure. Prudent budgetary implementation enabled the repayment by end-June 2003 of all external debt-service arrears to multilateral institutions, as well as arrears on post-cutoff-date debt and debt service under the last Paris Club rescheduling owed to bilateral creditors.
- **To strengthen further the track record before discussing a possible Fund-supported program, a staff-monitored program has been established for the period September-December 2003,** within the framework of the authorities' medium-term program. Measures identified as prior actions have been implemented.
- **The authorities' 2003-06 program aims at fostering diversification of the economy and growth, and reduction of poverty, through sustained fiscal adjustment and comprehensive structural reforms.** In particular, the structural component focuses on enhancing governance and public finance management, promoting public enterprise restructuring and privatization, and improving the business climate, so as to promote greater domestic and foreign investment.
- **While the authorities' program constitutes an important step towards addressing Gabon's challenges, it will need to be strengthened further if debt is to be put on a sustainable path.** As the envisaged fiscal adjustment is already very ambitious, focus should be placed on structural reforms designed to boost non-oil sector growth.

I. INTRODUCTION

1. In concluding the 2001 Article IV consultation on April 1, 2002, Directors noted the efforts made to move the economy toward medium-term sustainability; however, they regretted the shortcomings in program implementation. Directors stressed that the prospects for growth and poverty reduction in the medium term depended critically upon the extent to which the non-oil sector will replace oil and the government sector as the engine for growth. Accordingly, they urged the authorities to formulate and implement a new program embodying a revamped fiscal and structural reform effort that could obtain the support of the international community, including through debt rescheduling from bilateral creditors.

2. Discussions on a new possible Fund-supported program were conditional on the establishment of a solid track record of policy implementation. In view of the slippages in the implementation of the program supported by the 18-month Stand-By Arrangement approved in October 2000, and also under the 1995–98 program supported by the Extended Fund Facility (EFF), it was agreed during staff missions to Libreville in October 2002 and February 2003 that, before requesting a new arrangement, Gabon would have to make substantial progress in the structural area and establish a satisfactory track record of macroeconomic policy implementation. In the event, all preconditions for program negotiations were implemented. Subsequently, other measures were set as prior actions for the start of a program, including achieving fiscal targets for the first half of 2003. These prior actions were met, with the exception of the government's position vis à vis the banking system. A staff-monitored program was agreed for the period September-December 2003 to strengthen the track record before discussing a possible Fund-supported program.

3. In the annexed letter to the Managing Director, dated October 20, 2003 (Appendix I), and the attached memorandum of economic and financial policies (MEFP), the authorities describe their program for 2003–06, including the main lines of the budget for 2004, and the detailed objectives and policies for the period September-December 2003, which constitute a staff-monitored program. Relations with the Fund and the World Bank are summarized in Appendices II and III, respectively. Appendices IV, V, VI, and VII present the debt sustainability assessment, the safeguards assessment, statistical issues, and the background section of the public information notice (PIN), respectively.

II. MAIN CHALLENGES

4. Over the last ten years, the authorities have not taken sufficient actions to reduce Gabon's oil dependency, and have pursued a procyclical fiscal policy that has not encouraged diversification and has failed to improve the country's poor social indicators. As the old oil fields have become less productive and no new major discoveries have been made, oil production has been on a declining trend after peaking in 1997 (table below). Although the production decline slowed in 2001–02 compared with earlier projections, the medium-term prospects for oil production remain grim, as they depend on the exploitation of marginal fields and the secondary recuperation of abandoned fields through improved technology.

Political considerations also played a role in hampering the adjustment effort, as expenditure was boosted during election periods.

Gabon: Key Fiscal Indicators, 1979–2002

(In percent of GDP, unless otherwise indicated)

	1979– 86	1987– 94	1995	1996	1997	1998	1999	2000	2001	2002
Oil revenue	21.6	9.1	17.9	15.4	20.7	18.8	12.8	22.5	21.8	17.7
Non-oil revenue	13.3	12.8	11.6	10.5	12.4	15.6	15.5	10.9	12.2	13.9
Primary expenditure	30.5	22.1	18.2	17.3	25.4	40.8	20.3	15.9	22.0	23.7
Primary balance	4.4	-0.2	11.3	8.6	7.8	-6.3	8.0	17.5	12.0	7.9
Total public debt	...	79.7	112.4	88.6	86.4	101.6	101.1	73.0	75.8	76.6
Of which: external debt	33.3	64.0	77.9	71.9	70.7	76.8	79.6	63.6	63.6	62.6
World oil prices (in U.S. dollars per barrel)	28.5	17.8	17.2	20.4	19.3	13.1	18.0	28.2	24.3	25.2
Oil production (in millions of tons)	8.4	12.6	18.1	18.3	18.5	17.6	15.6	13.6	13.0	12.6

Sources: Gabonese authorities; and Fund staff estimates.

5. **The dependency on oil has also led to a high-cost structure across the economy,** with a high salary level in the public sector, excessive dominance by the public sector in the economy, and weak governance. In particular, public enterprises have been inadequately managed, leading to recurrent costly bailouts by the government. The combination of high public sector wages and a large public sector workforce has been a serious impediment to private sector development. However, there are indications that Gabon’s competitiveness improved during 1990–2002, as reflected by the substantial decline of unit labor costs in the manufacturing sector (see Box 1).

6. Even though Gabon’s GDP per capita (US\$ 3,900 in 2002) is similar to that of middle-income countries, **its social indicators remain similar to those of low-income countries.** While extreme poverty declined substantially, from 56 percent in 1968 to 11 percent in 1993, the poverty incidence indicator has decreased only marginally; as a result, 62 percent of the population lives below the poverty line, and access to basic social services remains limited for a large segment of the population, particularly in rural areas.

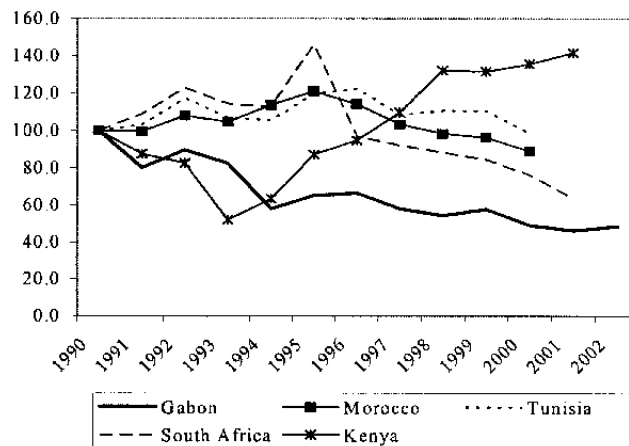
Box 1. External Competitiveness

Following the discovery of oil four decades ago, the cost structure of the Gabonese economy increased substantially. In particular, civil service wages are very high by regional standards and represented in 2001-02 about 350 percent of average wages in Kenya, 250 percent of that in Cameroon, 150 percent of that in Senegal, and 120 percent of that in Côte d'Ivoire. However, as a ratio to per capita income, Gabon's civil service wages are lower than in the four other comparator countries. Wage policy during 1990-2002 was prudent, so that the average civil service wage declined by 17 percent in real terms. In addition, as noted below, unit labor costs in manufacturing, as expressed in U.S. dollars, fell during that period both in absolute terms and relative to comparator countries. In addition to labor costs, the cost of public utility services, transportation, and other factor inputs is also crucial for an assessment of cost competitiveness. In this regard, the cost of electricity in Gabon is higher than in competitor countries.¹² **Key developments in the real effective exchange rate and unit labor costs can be summarized as follows:**

- In 2002, the **CPI-based real effective exchange rate (REER)** index was 1 percent above the level attained in 1994, a year when the real effective rate depreciated by 33 percent as a result of the 50 percent nominal devaluation of the CFA franc against the French franc in January (Figure 2). This suggests that the gains of the 1994 devaluation have been preserved.
- Over the period 1990-2002, **Gabon's index of unit labor costs in manufacturing**, converted into U.S. dollars, declined faster than the index for Morocco, Tunisia, and South Africa; meanwhile, in Kenya the index rose (see figure below). Such an index is not available for Côte d'Ivoire, Senegal, and Cameroon.

Finally, overall competitiveness also depends on the quality of infrastructure, the quality of institutions, including the legal and judicial system and the business climate, including costs and availability of finance. Indications that Gabon's overall competitiveness is likely to have improved over recent years stem from the good performance of non-oil exports during 1994-2002, which rose by 20 percent.

Unit Labor Costs in Selected African Countries
1990-2002
(in U.S. dollars)



^{12/} Medium voltage electricity cost the equivalent of US\$0.09 per kilowatt-hour in 2002. This compares with US\$0.08 in Côte d'Ivoire, US\$0.125 in Senegal, US\$0.07 in Morocco, US\$0.09 in Kenya, and US\$0.15 in South Africa.

III. RECENT ECONOMIC DEVELOPMENTS

7. **Gabon's economic performance in recent years reflects declining oil production and a pattern of only sporadic and insufficient adjustment.** Oil production declined by 17 percent between 1999 and 2002; and a recovery of the non-oil sector took place during 2000–01 but was short-lived, as growth fell to less than 1 percent in 2002 (Table 1 and Figure 1). There are signs that, in the first half of 2003, economic activity in the non-oil sector picked up, with non-oil exports growing by 11 percent in value, driven by processed wood and agricultural products. New export-oriented private initiatives in agriculture have contributed to this outcome. For the year as a whole, it is projected that oil production will decline only slightly. However, the decline in oil GDP at constant prices is expected to be larger than that of oil production, because of the increase in production costs, as marginal fields are exploited and expensive secondary recuperation undertaken. Non-oil GDP at constant prices is presently expected to increase by 2.4 percent, because of a recovery in the forestry sector; there are downside risks to this estimate, if the drop in imports during the first half of the year is not reversed. However, nominal GDP may decline by less than the 5 percent presently projected, if present trends for international oil prices are maintained in the remainder of 2003.

8. The external current account worsened in 2001–02, reflecting the fall in oil exports and unfavorable performance of non-oil exports, mainly consisting of logs (Table 4).¹ Imports rose by 16 percent per year on average in the same period, mainly owing to investment in the forestry sector, and a pick up in petroleum exploration. Over the last three years, the contribution of Gabon to the external reserves of the regional central bank (Bank of Central African States, BEAC) was positive, but external arrears accumulated because of a weak budgetary position. Inflation, as measured by the consumer price index, was low over the period, averaging less than 2 percent. Despite a modest appreciation of the real effective exchange rate in 2002, caused by the nominal depreciation of the U.S. dollar vis-à-vis the euro, the real effective depreciation associated with the devaluation of the CFA franc in 1994 (33 percent) has largely been preserved (Figure 2).

9. After the considerable fiscal adjustment of 2000, overall fiscal policy was relaxed during the second half of 2001, but efforts were undertaken in 2002 to tighten the budget (Tables 2 and 3, and Figure 3).² Non-oil revenue increased by 1.7 percentage points of GDP

¹ The main non-oil exports are wood (logs and wood products, comprising over 12 percent of total export volume) and manganese (about 5 percent of total export volume). In 2002, the increase **in non-oil imports** reflected an upsurge in the demand for machinery and nonfood consumption goods.

² End-2001 fiscal data were revised in mid-2002 to reflect extrabudgetary expenditures. Amounting to about 4 percent of GDP, these extrabudgetary outlays were related to investment and election expenditures; they were identified only after the conclusion of the 2001 Article IV consultation.

to 13.9 percent in 2002, reflecting improved revenue collection efforts, including a revamping of tax administration. In particular, receipts from personal income taxes, business profit taxes, and the tax on petroleum consumption rose sharply. Also, collections of back taxes on account of the value-added tax (VAT) and the income tax were strong, at 0.6 percent of GDP. For the first time since the creation of the Fund for Future Generations (FFG) in 1998, a substantial amount of deposits was made to the fund, totaling CFAF 70 billion (2 percent of GDP) and representing the bulk of the excess of oil revenue over the 2002 budgetary forecast.³ However, adjustment efforts on the expenditure side were hampered by costs related to the restructuring of public enterprises (2 percent of GDP), and by some overruns in sovereignty and security expenditure partly related to regional instability.

10. **From 1999 to 2002 the external public debt declined markedly as a share of GDP, while still remaining very high,** with overall public debt falling faster, reflecting the payment of domestic arrears following the 1999 audit (Tables 1 and 6 and Appendix IV, Tables 1 and 2). However, substantial external payments arrears to bilateral and multilateral creditors accumulated in 2001–02, reaching CFAF 278 billion at end-2002 (8 percent of GDP).⁴

11. **Broad money expansion decelerated during the last three years,** despite an acceleration in the growth of credit to the economy in 2000–02 and an increase in net foreign assets, as the government improved its position vis-à-vis the banking system (Table 5). The monetary policy of the BEAC remained geared to supporting the exchange rate peg with the euro. The BEAC lowered its money market intervention rates during 2002 in line with the decline of the official rates in the euro area, but continued to maintain a positive differential with the latter; out of concern for the excess liquidity of commercial banks, reserve requirements were raised in December 2002 and March 2003.⁵ In the first six months of 2003, Gabon's contribution to the international reserves of the BEAC continued to improve.

³ The statutes of the FFG stipulate that each year 10 percent of the budgeted oil revenue and half of any revenue in excess of the budgeted amount must be transferred to the FFG. No cyclical use of these amounts is envisaged. The purpose of the fund is to replace oil wealth with financial assets, so as to limit the decline of overall net wealth.

⁴ The external debt data for end-2001 have been revised upward from those presented in the staff report for the 2001 Article IV consultation (SM/02/81, 3/11/02), from 58.5 percent of GDP to 63.6 percent of GDP, after including publicly guaranteed debt for which data were not previously available.

⁵ The reserve requirement on demand deposits was raised in December 2002 from 2 percent to 3 percent, and in March 2003 to 5 percent; that on time deposits was raised correspondingly from 1 percent to 1.75 percent, and then to 3 percent. The reserve requirement ratios were differentiated across two groups of the Economic and Monetary

(continued)

12. **The banking system as a whole remains sound** (Box 2). Data from the regional banking commission for Central African States (COBAC) show that all banks respected the prudential standards, although two banks were only slightly over the minimum liquidity ratio. The increase in nonperforming loans in 2001–02 was largely related to temporary difficulties of the forestry sector, arising from a fall in international prices, but data for August 2003 show signs of a reversal. An element of concern is that credit remains highly concentrated in relatively few sectors (including forestry). The nonbank financial system remains small, representing in 2002 only 4.5 percent of the system's total assets. In particular, microfinance institutions are underdeveloped by regional standards, accounting for less than 1 percent of total financial assets.

13. **A CEMAC directive to combat money laundering and the financing of terrorism**, which provides for the establishment of national financial intelligence units to administer the relevant regulations, was adopted in March 2003. In accordance with the recommendations of the Report on the Observance of Standards and Codes (ROSC) and the safeguards assessment of the central bank conducted in 2001, measures have been introduced to improve the BEAC accounting and internal auditing systems, so as to bring them in line with international standards (see Appendix V).

IV. RECENT ADJUSTMENT AND REFORM EFFORTS

14. Since mid-2002, the authorities have recognized that the past pattern of intermittent adjustment and recurrent excess spending has to be stopped since oil production continues to decline, while the debt burden remains extremely heavy. The authorities have decided that the foundations for rigorous public resource management must be strengthened through measures to enhance governance at all levels. They have also committed themselves to improving the private investment climate and fostering competitiveness, in order to promote rapid diversification of the economy and foster non-oil sector growth. To this end, the authorities have taken since mid-2002, in consultation with Fund staff, a number of important measures in the areas of governance and public sector management that were considered by the staff essential to initiating discussions on a new Fund-supported program (Box 3).

Community of Central Africa (CEMAC) member countries in August 2002 to take into account differing rates of inflation, with Gabon in the group with the lower ratios.

Box 2. Soundness of the Banking Sector

The financial soundness indicators presented below indicate that the banking sector in Gabon has remained sound in recent years, with improvements in the liquidity and capital adequacy ratios since 2000. The capital adequacy ratio of the banks was 17.7 percent in 2002, having recovered from a drop to 13.2 percent in 2000. Liquidity has also improved, with liquid assets representing 140 percent of short-term liabilities in 2002. Out of concern for excess liquidity in the CEMAC area, the 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, with average returns on assets greater than 5 percent and average returns on equity at 43.6 percent in 2001. In 2001-02, there has been a significant increase in nonperforming loans (NPLs) as a percent of total loans, because of some repayment difficulties of the forestry sector related to the decline in international prices; this trend has been partially reversed during 2003, as the financial health of the forestry sector improved somewhat, with the increase in prices. Banks substantially improved their provisions for NPLs to 67 percent of total NPLs in 2002 from 37 percent in 1998.

Discussions with the authorities and representatives of the private sector indicated that some of the weaknesses identified in the 2001 FSAP report were still present. In particular, banks remain highly exposed to public enterprises and government suppliers. The concentration of loans in a few sectors (including forestry) continues to pose a risk to the financial system.

Gabon: Banking Sector Soundness Indicators, 1998–2002
(Ratios in percent)

	1998	1999	2000	2001	2002	2003
						Aug.
Capital adequacy						
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 ^{1/}	4.5	3.1	2.4	7.3	5.0	...
Asset quality						
NPLs to total gross loans	8.9	9.4	6.6	8.7	11.5	10.2
NPLs to total capital	32.3	36.7	35.0	41.5	60.6	34.1
NPLs provisions to total NPLs	37.2	36.1	64.7	63.2	66.8	...
Earnings and profitability						
Interest margin to gross income	184.7	182.6	159.8	73.8	...	...
Return on equity	28.8	31.2	60.2	43.6	26.6	...
Return on assets	5.6	5.4	6.2	5.7	5.2	...
Liquidity						
Liquid assets to short term liabilities	127.0	134.6	125.4	128.8	139.6	...

Source: Bank of Central African States (BEAC).

¹ 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.

Box 3. Structural Measures Implemented in 2002 and the first nine months of 2003¹

Public sector management

- In early 2003, the integrated budgetary expenditure information system (SI) became fully operational. (*)
- In early 2003, the centralization in the treasury accounting system of the monthly operations of the nine provincial treasury offices was accelerated through the establishment of new dedicated telecommunication lines.
- Monthly reports were prepared reconciling treasury expenditures and payment orders issued by the General Directorate of the Budget. (**)
- A General Directorate for Taxes was established in mid-2002 to integrate the previous two domestic tax directorates.
- Sovereignty and security expenditures were sharply cut in the 2003 budget.
- Outlays of special funds administered by the Ministries of Finance, Planning, Mining, and Forestry were cut by 20 percent for 2003.
- Regional capital expenditure related to the independence day celebration was brought under the regular budget process in 2003.²
- An action plan was adopted to eliminate tax exemptions under special agreements, with the exception of those relating to the mining and forestry sector, the investment charter, and the Vienna Convention. (**)
- The tenders for the privatization of Gabon Telecom and the rubber company HEVEGAB were launched in June and September 2003, respectively.

Governance

- An action plan for the implementation of the recommendations of the financial audits of oil companies was adopted in December 2002. (*)
- A new procurement code was adopted in December 2002, after consultation with the World Bank, to improve transparency in the bidding process. (*)
- A new Directorate General for Public Procurement, which will have a key role in the supervision of the procurement process, became operational in early 2003.
- The anticorruption legislation was adopted by parliament in December 2002 and revised in April 2003 on the basis of advice from the Constitutional Court; the legislation was promulgated by the Head of State on May 7, 2003. (*)
- The National Commission Against Illicit Enrichment (CNCEI) became operational in June 2003, following the appointment of the commissioners and the provision of an adequate budget for the commission. (**)
- A one-stop center for investment promotion (Agence de Promotion des Investissements Privés, APIP) was established in November 2002 to simplify procedures for setting up new businesses.

¹Preconditions for initiating program negotiations are marked with (*); prior actions for the start of a program are marked with (**).

²These expenditures were executed under simplified procedures in 2001-02. These outlays aim at strengthening infrastructure in two out of nine regions every year, with completion scheduled for mid-August, to coincide with the independence day celebrations.

A number of these reforms, specifically, the adoption of the anticorruption legislation,⁶ the revamping of the computerized budget information system, the reform of the procurement code, and the finalization of financial audits of oil companies, constituted preconditions for initiating negotiations on a new program. To attract investment and promote diversification the authorities are seeking to bolster essential infrastructure, with external assistance, while improving the focus of the public investment program. They are also committed to addressing the weakness in social indicators by implementing a well-designed program to strengthen social services.

15. **The budget for 2003 adopted at end-2002 was in line with targets agreed with the staff**, which aimed at reducing substantially the non-oil deficit by over 8 percentage points of non-oil GDP, through expenditure cuts and intensified revenue mobilization (see paras. 21-23).

V. POLICY DISCUSSIONS

16. Because of the need for sustained fiscal adjustment and comprehensive structural reforms to strengthen governance and promote the diversification of the economy, the authorities were strongly of the view that **their program needed to have a medium-term horizon; in that connection, they hoped that it could form the basis for discussions on an arrangement with the Fund.** They stressed that they had already made considerable progress in building a track record through the important measures that had been implemented since mid-2002, the improved fiscal performance in 2002, and the satisfactory budgetary execution in the first half of 2003. They pointed out that a medium-term program was needed to address the challenges confronting the Gabonese economy, and they hoped that it could be supported in due course by an Extended Arrangement. The staff, while recognizing the progress made since mid-2002 and concurring with the need for a medium-term program of sustained fiscal adjustment, noted that the track record needed to be strengthened further in order to ensure its success, particularly in view of the significant slippages in the implementation of the previous Fund-supported program. Thus, the staff proposed that the implementation of the first phase of the medium-term program, up to end-December 2003, would constitute a staff-monitored program. The staff also stressed that the external debt situation remained very worrisome, with the debt-to-GDP ratio well in excess of 50 percent, in a situation where Gabon continued to be very vulnerable to external shocks. This pointed to the need to strengthen some aspects of the medium-term program. With the planned fiscal adjustment already very ambitious, efforts would need to focus on structural

⁶ An amendment to the anticorruption legislation to strengthen the independence of the commission, and the transparency of its operations, which was set as a precondition for program negotiation, could not be introduced. However, the implementation of the legislation was accelerated, with a view to the early start of operation of the anticorruption commission.

reforms designed to enhance growth prospects and thus the possibility of achieving a sustainable external debt path.

A. Medium-Term Objectives and Macroeconomic Policies

17. **The authorities emphasized their determination to confront the challenges facing the country by pursuing policies aimed at diversifying the economy, sustaining growth, and reducing poverty, while containing financial imbalances.** They underlined that the country had significant economic potential, especially in wood processing, ecotourism, fisheries, and agro-industry (see table below and Box 4), that could be tapped successfully with an appropriate set of policies. Key quantitative objectives of their medium-term program are to (i) achieve non-oil GDP real growth rates of 2.4 percent in 2003, and about 4 percent per year during 2004–06; (ii) stabilize the average annual inflation rate at 2 percent during 2003–06; and (iii) contain the external current account deficit at 5.5 percent of GDP by 2006. Owing to the fall in the financial surplus in the oil sector (of 6½ percentage points of GDP over the program period), total national savings would decline by about 4 percentage points of GDP during 2003–06. The investment ratio of the private sector is projected to stabilize at about 21 percent of GDP during this period, as higher investment in the non-oil sector would offset declining investment in the oil sector. Because of the amount of imports needed to support growth in the non-oil sector, the non-oil current account deficit is projected to widen

Gabon: Sources of Growth, 2001–06
(Annual percentage changes, unless otherwise indicated)

	Sectoral Share of GDP (In percent, in 2002)	2001	2002	2003	2004	2005	2006
		Est.	Est.	Projections			
Real GDP	100.0	2.0	0.0	0.1	1.8	0.4	0.9
Oil sector	27.1	-5.7	-1.4	-6.0	-3.1	-11.1	-11.9
Non-oil sector	72.9	5.3	0.6	2.4	3.5	4.0	4.4
<i>Of which</i>							
Agriculture, livestock, hunting,							
Fishing	6.1	3.5	2.2	2.4	3.0	3.5	4.2
Logging activities	2.1	1.8	-20.6	12.0	10.0	7.0	6.0
Agro-industry	2.7	11.3	3.4	2.2	4.0	7.0	6.0
Wood industry	0.7	33.3	19.0	17.8	20.5	20.8	21.1
Merchant services	31.3	3.5	-0.1	2.2	3.9	5.1	5.5

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

Box 4. Prospects for the Diversification of the Non-Oil Economy

Prospects for growth and poverty reduction depend crucially on the ability of the country to diversify its production base away from the oil sector. The recently approved Law on Development and Land Use Planning has identified sectors with important potential, in particular wood processing, tourism, fisheries, and agro-industry. The development of a dynamic non-oil private sector requires that the structural reform agenda be fully carried out, including privatization of public enterprises, simplification of the regulatory process to foster competition, a strengthening of financial institutions, improvement in the judicial system and legal environment, and better targeting of public investment program to improve essential infrastructure. The eligibility of the country under the U.S. African Growth and Opportunity Act (AGOA) could be an important incentive for direct investment.

Agriculture and agro-industry. The agricultural sector has been experiencing difficulties. There is an urgent need for the major agribusiness enterprises to undergo considerable restructuring through downsizing, rehabilitation of the plants and plantations, and, ultimately, the launch of privatization bids. To that end, the government has taken steps to privatize the rubber company (HEVEGAB) and the palm oil company (AGROGABON), and production by these two companies is showing encouraging signs of upturn. However, much remains to be done in other subsectors. The restructuring of AGRIPOG, the main operator in farming, has yet to be undertaken; cocoa and coffee production has also been neglected over time, resulting in a degradation of the plantations, while there is potential to significantly expand production by small and medium-scale farmers.

Fisheries. Gabon's important coastal resources are currently underexploited. Obstacles to the development of the fishing industry include the high cost of operating in Gabon, limited access to ports, and limited financing options. A recent foreign investment in a large fishery close to Libreville is an encouraging sign that growth opportunities can be tapped.

Forestry and wood transformation. Gabon's forestry resources have vast potential but are facing a number of challenges, including how to secure environmentally sustainable development and increase local processing. The transformation rate of produced logs was slightly above 20 percent in 2002 (the government aims at reaching a rate of 50 percent by 2005), and wood processing is limited to sawing and veneer peeling; this latter situation is well below the ambitious objectives of the 2001 forestry code, which aims for more complex processing with higher value added. The sector has suffered in 2002 from low international prices, which have however strengthened recently. On the positive side, new private initiatives have recently started to export fruit and vegetables to European markets.

Mining. Gabon ranks second in the world in the production of manganese. The Moanda field is run by the Compagnie Minière de l'Ogooué (COMILOG), which is under foreign private majority control and management, with a minority participation of the government. The company is currently highly profitable, but is subject to fluctuations in the international demand for manganese, in particular by the U.S. metallurgic industry.

Tourism. The development of the tourism industry is still in the initial stage. New initiatives are promising, namely, the creation of ten new national parks with foreign support and the development of a strategy targeted to ecotourism.

Other sectors. Economic performance in services and commerce, which account, respectively, for 13.3 percent and 7 percent of GDP, is closely related to the performance of the main contributors to growth (oil, wood, and manganese sectors) and to government spending. The diversification and restructuring of those sectors should act as a catalyst to development in services, commerce, transport, and financial services.

from 9.8 percent of GDP in 2002 to 11.4 percent in 2003, before gradually narrowing to 9.5 percent in 2006 as non-oil exports pick up (Table 4). The external public debt-to-GDP ratio would increase from 62.6 percent in 2002 to 66.2 percent in 2006; however, the public debt-to-GDP ratio would decline, owing to large primary surpluses directed towards the repayment of domestic debt arising from previous refinancing operations. The financing gaps during 2004–06 in both the budget and the balance of payments are projected at about 9 percent of GDP on average per year, and are expected to be covered by debt rescheduling and financial assistance from multilateral institutions.⁷ In 2004 the African Development Bank (AfDB) is expected to provide substantial balance of payments and budgetary support through a structural adjustment credit under preparation. Budgetary support in 2003-04 is also expected from the European Union. An analysis of the financing gaps beyond 2006 and the profile of the debt-GDP ratio is presented in paragraphs 42-44.

18. The authorities emphasized that fiscal adjustment will be complemented by measures that will contain the cost structure in the economy and promote the reallocation of resources toward the private sector, particularly in areas where there is untapped potential. The measures include (i) stepping up public enterprise restructuring and privatization; (ii) upgrading economic infrastructure; (iii) removing impediments to private sector development; (iv) enhancing governance and transparency at all levels of public management; and (v) improving the organization and efficiency of social services, so as to rapidly raise social indicators.

19. The staff, while recognizing the authorities' efforts in structural reforms, highlighted the need for an appropriate medium-term program to contain sufficiently strong measures so as to ensure the rapid pick-up in growth required to achieve debt sustainability. In particular, the staff underscored that significant distortions existed in the forestry sector (including the existence of a marketing board and differential taxation of logs and processed wood), that in agriculture, where substantial potential exists, supporting services and infrastructure are needed to enable the sector to fulfill its potential, and that the banking sector provides little financing to small-scale enterprises. The staff urged the authorities to reach an agreement quickly with the World Bank on a set of comprehensive reforms in the forestry sector. The African Development Bank and the European Union are also providing support for reforms in the area of governance, the social sectors, infrastructure, mining, and public enterprise privatizations.

⁷ The financing gaps in 2003–06 are higher than projected at the time of the 2001 Article IV consultation (SM/02/81, 3/11/02), due to a more realistic projection of foreign direct investment; the external current account deficit projections are broadly unchanged.

Fiscal policy over the medium term

20. **The authorities agreed with the staff that, in view of the continued decline in oil production, the heavy debt burden, and the absence of concessional assistance,⁸ medium-term fiscal sustainability required determined efforts to reduce the non-oil fiscal deficit and to ensure prudent management of oil revenue.** The main fiscal objective of the authorities is to reduce the non-oil primary budget deficit from the equivalent of 16.8 percent of non-oil GDP in 2002 to 8.2 percent in 2003 and 3.8 percent in 2006 (see table below).⁹ The maintenance of a high primary budgetary surplus (8 percent of GDP on average during the period, albeit declining because of the fall in oil revenues) will allow a further reduction of the public debt- to-GDP ratio from 76.6 percent of GDP in 2002 to 68.9 percent in 2006, despite a fall in nominal GDP. The reduction of nonpriority current expenditure will free up resources for expenditure on social and economic infrastructure, so as to improve social indicators and promote economic diversification in the non-oil traded goods sectors. The authorities envisage setting aside about 10 percent of the projected oil revenue in the FFG during 2004–06, and depositing in the fund any windfall oil revenue.

21. With the full effect of the wide-ranging revenue-enhancing measures implemented in 2002 and 2003, as well as the strengthening of tax administration, non-oil revenue is projected to increase from 13.9 percent of GDP in 2002 to some 18 percent in 2006. This will help offset partially the projected decline in oil revenue (9 percentage points of GDP); by 2006, non-oil revenue would represent two-thirds of total revenue, as against 44 percent in 2002. On the expenditure side, the authorities plan to reduce primary expenditure other than capital spending from 19.7 percent of GDP in 2002 to about 16 percent in 2003–06 through (i) a gradual reduction in the wage bill, while securing the necessary recruitment in the social sectors in line with the priorities indicated in the interim PRSP (I-PRSP);¹⁰ (ii) severe cuts in nonpriority current outlays; (iii) rigorous management of public service consumption; and (iv) savings from the privatization and restructuring of public enterprises (MEFP, paras. 13 and 19–22). Capital expenditure is projected to rise from 4 percent of GDP in 2002 to

⁸ Except for some grants from the European Union (of about 0.2 percent of GDP a year), the bulk of external assistance is provided in the form of nonconcessional loans.

⁹ However, in view of the declining oil revenue, the primary budgetary surplus (including oil revenue) would fall by 2.2 percentage points of GDP over the program period to 6 percent of GDP in 2006.

¹⁰ The reduction in the wage bill will arise mainly from the revision of the system of indemnities and a cut in the number of senior staff in advisory positions (MEFP, paras. 22 and 35). Because of the needed recruitment in the social sectors, by 2006 the wage bill will be higher than projected at the time of the 2001 Article IV consultation.

Gabon: Indicators of Fiscal Adjustment, 2001–06

	2001	2002	2003	2004	2005	2006
		Est.		Projections		
	(In percent of GDP)					
Revenue	34.0	31.5	31.6	28.9	28.6	27.0
<i>Of which: non-oil revenue</i>	12.2	13.9	15.5	15.9	17.1	18.1
Primary expenditure	22.0	23.7	20.8	20.7	21.0	21.2
<i>Of which: primary current expenditure</i>	16.1	15.5	14.3	14.1	14.3	14.4
<i>Of which: wage bill</i>	6.4	6.4	6.8	6.6	6.6	6.6
net lending and restructuring of						
public enterprises	1.1	2.5	0.0	0.0	0.0	0.0
capital expenditure	4.7	4.0	4.8	5.0	5.3	5.2
Primary balance	12.0	7.9	10.9	8.4	7.7	6.0
External debt service paid, including IMF	14.0	4.2	7.2	6.5	5.6	5.2
Public debt	75.8	76.6	76.0	71.6	69.5	68.9
<i>Of which: external debt, including IMF</i>	63.6	62.6	63.3	63.5	64.7	66.2
	(In percent of non-oil GDP)					
Non-oil revenue	21.1	23.9	24.2	24.1	24.1	23.8
Primary expenditure	37.9	40.8	32.6	31.3	29.7	27.8
<i>Of which: primary current expenditure</i>	27.9	26.7	22.4	21.3	20.1	19.0
net lending and restructuring of						
public enterprises	1.9	4.2	0.0	0.0	0.0	0.0
capital expenditure	8.2	6.8	7.4	7.5	7.4	6.9
Non-oil primary balance	-16.9	-16.8	-8.2	-6.9	-5.4	-3.8
External debt service paid, including IMF	24.1	7.2	11.2	9.9	7.8	6.8
Public debt	130.8	131.8	118.8	108.2	98.1	90.6
<i>Of which: external debt, including IMF</i>	109.7	107.7	98.9	96.0	91.2	87.1

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

4.8 percent in 2003 and to 5.2 percent of GDP in 2004–06. To improve the efficiency of public investment, and in particular to develop key infrastructure needed for the non-oil traded goods sectors, the government will strengthen the public investment preparation and execution process, and public investment will be aligned with the priorities established in the PRSP under preparation (MEFP, paras. 12 and 22). Investment execution will be monitored more closely through the preparation of quarterly execution reports (MEFP, para 23).

Fiscal policy in 2003

22. **The fiscal program for 2003 is based on the authorities' budget for 2003, which was adopted in December 2002 in line with the objective of medium-term fiscal sustainability.** This entails a reduction in the non-oil primary deficit of over 8 percentage points of non-oil GDP (from 16.8 percent of non-oil GDP in 2002 to 8.2 percent in 2003), partly because of the nonrecurrence of outlays for on-lending and public enterprise restructuring (4.2 percent of non-oil GDP). Oil revenue projections for 2003 are prudently set

at the equivalent of 16.2 percent of GDP, based on an average Brent oil price of US\$27.2 per barrel and an average exchange rate of CFAF 590 per U.S. dollar. Any excess of oil revenue over projections will be deposited in the FFG, and the possible use of this surplus, including for public debt reduction, will be determined after consultation with Fund staff.

23. Non-oil revenue is targeted to reach the equivalent of 15.5 percent of GDP in 2003, up from 13.9 percent in 2002, thus offsetting the projected decline in oil revenue. This increase reflects the full effect of the tax measures adopted in 2001–02 (excise taxes, VAT, domestic consumption tax on fuel, and forestry taxes), as well as the administrative measures to improve tax collection (better valuation of exported logs —although the whole taxation issue will have to be revisited to achieve equitable treatment between logs and processed wood exports, see para. 36 below—,¹¹ customs computerization, tax audits, tax arrears collection, and the overhaul of tax exemptions¹²) that are detailed in paragraphs 16–17 of the MEFP (see table below). The authorities have finalized an agreement with the forestry operators on suitable levels of the new forestry taxes to provide proper incentives for sustainable development and local wood processing (see MEFP, para. 18)¹³. The issue of collecting forestry tax from small operators will be covered by the World Bank under the forthcoming forestry and environmental project. The authorities have also requested technical assistance from FAD to improve tax administration.

24. Primary expenditure will be reduced by 2.9 percentage points of GDP to 20.8 percent in 2003, while public investment will increase by 0.8 percentage points of GDP to 4.8 percent. Cuts focus on outlays of sovereignty funds, assistance to public enterprises, public utility consumption, and the wage bill (MEFP, paras. 19–23).

¹¹ To avoid lengthy disputes regarding the taxable base for exported logs, a system of reference prices was introduced in June 2003, in line with World Bank recommendations; reference prices will be set every six months by a joint commission of government and private operators on the basis of international prices.

¹² An action plan for overhauling tax exemptions was adopted in June 2003; it is based on the principle that all exemptions have to be strictly in conformity with the mining, forestry, and investment codes, or with international agreements. Customs exemptions to a number of companies in the construction sector were eliminated in June 2003.

¹³ As domestic taxation of forestry activities strengthens, the authorities intend to replace the export tax on logs with the domestically collected stumpage fee.

Gabon: Estimated Yield of Tax and Administrative Measures in 2003

(In percent of GDP)

Tax measures	1.1
Domestic VAT	0.4
Tax on petroleum products consumption	0.3
Excises	0.1
Forestry sector taxes	0.3
Tax administration	0.5
<i>Of which: arrears collection</i>	0.3
Total	1.6

25. **Budget execution in the first half of 2003 was in line with the quarterly targets established with Fund staff early in the year (Table 2 and Appendix I, MEFP, Table 1), which aimed at ensuring a sharp cut in the non-oil primary deficit.** Specifically, the non-oil primary deficit at end-June was in line with agreed targets. Because of a shortfall in customs revenue, owing to weak imports—which was only partially offset by a strong performance of indirect taxes—non-oil revenue was below the indicative target by 0.5 percent of GDP. This shortfall was offset by lower-than-targeted current and capital expenditure, although the wage bill exceeded slightly the indicative target. In the period July-mid-September non-oil revenue growth accelerated, because of a better performance of customs revenue. By end-June, as agreed, the authorities repaid all debt-service arrears to multilateral organizations and to official creditors on post-cutoff-date debt, as well as on obligations arising from the 2000 Paris Club rescheduling, for a total amount of CFAF 82 billion (2.4 percent of GDP). The remainder of the external arrears outstanding at end-2002 (CFAF 184 billion) is expected to be cleared through rescheduling by the Paris Club creditors in early 2004, which would also cover obligations on reschedulable debt falling due in 2003 (CFAF 156.2 billion). In the first half of 2003, the government also reduced substantially, and by an amount in excess of the established targets, the stock of domestic arrears, the main component of which is the float at the treasury. However, owing to the excess reduction of domestic arrears, compared with the end-June target, and to a shortfall in nonbank domestic financing, the end-June target on the government's position vis-à-vis the banking system was missed.

26. **For the remainder of 2003,** it is expected that the strong performance of indirect taxes and the collection of arrears on company taxes owed by some large companies, which is already under way, will boost non-oil revenue, which is, however, likely to remain somewhat below the initial target (by 0.15 percent of GDP). This shortfall, and some excess in the wage bill, resulting from the regularization of advancements following the 2001 civil service census, is expected to be offset by lower than initially projected foreign financed capital investment. Thus, the non-oil primary deficit target is expected to be reached. To contain the wage bill a decree was adopted in August and implemented in September curtailing by more than half the number of senior advisors at the presidency, the ministries, and other

institutions, with a saving on a full-year basis of 0.7 percent of the wage bill. Other measures to limit the wage bill are also under preparation; they include further curtailment of senior positions in the ministries and the presidency, the reform of the system of allowances related to functions, and the revision of severance benefits for contractual civil servants (see MEFP, para. 22). The reduction of domestic arrears will be kept within the agreed targets.

27. To offset the postponement to early 2004 of budgetary support from the African Development Bank that had been previously envisaged for 2003, the government has entered into negotiations for deferring to 2004 certain obligations on domestic debt and non guaranteed suppliers' credits. The remainder of the financing requirement will be covered by drawing down deposits at the central bank, which will be reconstituted in 2004 and 2005.

Budgetary targets for 2004 and key policies

28. **The draft budget for 2004 was submitted to Parliament in early October.** It is consistent with the medium term fiscal targets, and envisages a further reduction of the non-oil primary deficit to 6.9 percent of non-oil GDP (MEFP, para.27). Non-oil revenue is targeted to reach 15.9 percent of GDP, on account of a further strengthening of tax administration, including curtailment of tax exemptions and a more rigorous taxation of operators in the forestry sector. Primary expenditure is targeted to decline to 20.7 percent of GDP, with a further reduction of the wage bill and outlays on goods and services as a share of GDP. Capital outlays will increase to about 5 percent of GDP; the public investment program will continue to give priority to infrastructure and security on social sectors. The budget for 2004 has been prepared according to a new budget classification system, which includes a functional classification. Allocations to the road fund are included in the budget, while all the other special funds will be included in the budget starting in 2005 (see MEFP, para. 24). Specific actions have been taken to improve the preparation and execution of the investment budget. These include (i) the convening in September 2003 of an intergovernmental seminar where the key priorities for the investment budget were identified; (ii) the acceleration of commitment procedures to avoid delays in expenditure implementation; and (iii) improved coordination with donors, who will provide assistance in the design of sectoral investment programs. The staff considers that a thorough inventory of the float at the Treasury and of domestic arrears should be carried out at end-year to ensure transparent budget execution. The financing gap is expected to be covered mainly by flow rescheduling from Paris Club creditors, the commercial banks, and other bilateral creditors. The rescheduling is expected to cover arrears that will be outstanding at end-2003 (CFAF 340 million), and current reschedulable maturities (CFAF 157.5 billion), and will be conditional on the conclusion of an arrangement with the Fund.

Monetary policy and financial sector issues

29. **The authorities reiterated that monetary policy of the regional central bank would continue to be pursued in a manner consistent with the fixed exchange rate regime, while ensuring that positive interest rate differentials were maintained with the**

euro area. After a slight decline in the first half of 2003, reflecting mainly a reduction of bank indebtedness of forestry operators, broad money is projected to pick up to a more normal level in the second half of the year and in 2004. With limited external assistance, net foreign assets of the banking sector are projected to decline in 2003 by about 3 percent of beginning-of-period money stock, while credit to the government will increase, as described above. Credit to the economy is expected to pick up in the second half of 2003 and in 2004, to support an acceleration of the investment in the non-oil sector.

30. **The authorities agreed with the staff that a deepening and strengthening of the financial sector was essential to promote growth and diversification.** The 2001 Financial Sector Assessment Program (FSAP) identified the main structural weaknesses and risks in the Gabonese financial sector as (i) a lack of bank portfolio diversification; (ii) large exposure to government suppliers and public enterprises; and (iii) underdevelopment of nonbank financial institutions and microfinance. To correct some of these weaknesses, COBAC will have to focus inspections on risk diversification, in order to reduce systemic risk. The recent increase in nonperforming loans, while partly reversed in 2003, is a source of concern, and should be addressed with more provisioning and more careful portfolio management. Efforts are underway to develop microfinance institutions, so as to support small scale initiatives in the rural and urban areas (see Box 5). The Central African Stock Exchange (BEVEMAC), for which regulations have been established and capital is being paid, is planned to become fully operational in 2004.

External sector policies

31. **The authorities considered that the exchange arrangement and exchange rate level under the CFA franc monetary zone remained appropriate.** They were of the view that the broad stability of the real effective exchange rate of the CFA franc since 1994 indicated that the external competitiveness gained following the 1994 devaluation had been maintained (Fig. 2). They noted Gabon's large contribution to the BEAC's international reserves during 2002 and were confident that this contribution would strengthen over the medium term. **While welcoming these positive developments, the staff stressed that improving Gabon's external competitiveness will require the determined implementation of the reforms aimed at reducing domestic factor costs and promoting private investment.** An analysis of competitiveness is presented in Box 1.

32. **The authorities emphasized their commitment to maintain an open foreign trade system.**¹⁴ They concurred with the staff's recommendation to reduce the maximum customs duty rate under the CEMAC and to eliminate the remaining surcharges (MEFP, para. 32). In

¹⁴ At end-2002, Gabon continued to be classified a "4" on the Fund's index of trade restrictiveness (on a scale of 1–10, with 10 the highest level of trade restrictiveness).

Box 5. Private Sector Development: Microfinance Institutions

Although microfinance structures were in operation in some CEMAC countries before 1990, the growth of these institutions accelerated during the early 1990s, when multilateral lending institutions began to support them with lines of credit. In April 2002, COBAC enacted a set of regulations governing microfinance institutions, so as to harmonize the oversight and monitoring of these institutions with banking sector surveillance. In Gabon the share of microfinance institutions is small relative to both the assets of the domestic banking sector and to other countries of the CEMAC. The first microfinance institutions did not begin operations until 1991; currently, 13 institutions are in operation. Data on microfinance institutions show that about one-third of the available financing is directed to firms involved in domestic trade, 31 percent to agricultural enterprises, and about 14 percent to fisheries. Average interest rates charged in 2002 were 10-12 percent per annum for loans up to five years—about 5 percent lower than medium-term loans of the commercial banking system.

Even though there is a strong demand for microfinance in Gabon, the success of this instrument has been mixed. The rate of loan servicing is low, in some cases about 30 percent of total loans. Consequently, microfinance institutions have had difficulty servicing their lines of credit from larger institutions.

Selected Data on Microfinance Institutions in CEMAC and other countries, 2000

	Total Number of Institutions	Number of Clients	Percent of Total Credits Extended	Capital Base in Financial Sector (Percent of total)
Cameroon	656	200,000	4.6	5.5
Democratic Republic of Congo (DRC)	70	138,500	3.0	n.a.
Gabon	13	2,449	0.0	0.0
Equatorial Guinea	2		n.a.	
Rep. of Congo	161	41,160	2.0	1.9
Chad	133	31,879	3.3	4.9
CEMAC area and DRC	1,035	413,988	2.8	3.5

Source: CEMAC.

this context, the authorities support the efforts being undertaken within the CEMAC to reduce the maximum rate under the common external tariff (CET) from 30 percent to 20 percent (MEFP, para. 32).¹⁵ In addition, they have decided to eliminate all import surcharges by end-2004 (MEFP, para. 32), starting with those on lubricants and mineral water by end-December 2003.¹⁶ With these measures, the unweighted average of Gabon's customs duties, which remained unchanged at about 18 percent in 2002, would be reduced considerably.¹⁷ Moreover, the authorities have decided to eliminate the only remaining quantitative restriction on sugar imports by end-June 2004, when the government's obligation to the buyer of the public sugar company privatized in 1998 expires.

B. Structural Reforms, Governance, and Poverty Reduction

33. The program of structural reforms under way has a medium-term scope, but a number of actions have been identified as key components of the staff-monitored program, and are to be implemented before end-2003. These include reforms in the area of the civil service, governance, price liberalization, and public enterprises restructuring and privatization (see Appendix I, MEFP Table 2). Some areas of structural reform benefit from the substantial assistance of the World Bank and other multilateral organizations, as indicated in Appendix III.

Civil service reform

34. **The authorities agreed with the staff that the rapid completion of major reforms of the civil service under way was necessary to improve its efficiency, and to contain costs, not only for the government budget, but also for the economy as a whole.** The programmed reforms include (i) the adoption by parliament of laws organizing the civil service and reforming the general civil service regulations before end-2003, with an emphasis on merit-based promotions; (ii) the full harmonization of the payroll and personnel databases before end-July 2004 (MEFP, para. 35); and (iii) the rationalization of the regime of allowances and indemnities, which represent about 40 percent of the wage bill. An ethics code for government officials is to be adopted before end-December 2003.

¹⁵ The CET under CEMAC has four tariff levels (5, 10, 20, and 30 percent).

¹⁶ As of January 1, 2003, the surcharges were applicable to edible fats and oils, soap, poultry products, mineral water, cigarettes, and industrial lubricants.

¹⁷ A fee for the utilization of the customs information system (RUSID)—averaging about 2 percent of import value—is further added to the cost of the tariff.

Privatization and restructuring of public enterprises

35. **The authorities concurred with the staff's view that stepping up the World Bank-supported program of restructuring and privatizing public enterprises was essential for developing the private sector development and reducing costs to the budget.** A new impetus has recently been given to the privatization of the telecommunications company, Gabon Télécom, after delays during 2002. The call for bids for the sale of a controlling share, coupled with the awarding of a management contract, was launched in June 2003, and a majority of the capital is to be offered for sale in a second stage (MEFP, para. 39). With regard to Air Gabon, the authorities agreed that an improvement in management was imperative to end the need for budgetary support. They stressed that a successful restructuring of the company, under way with the assistance of the Lufthansa Consulting Company, was essential to lead the company to privatization (MEFP, para. 40). Prospects have improved in the agro-industry sector, particularly for the rubber production company (HEVEGAB), which has been offered for sale at end-September 2003. The restructuring of the palm oil company (AGROGABON) continues, and tenders for the privatization of the company are expected to be launched before end-2003 (MEFP, para. 41).

Forestry sector

36. **Comprehensive reforms are needed to remove impediments to achieving sustainable development of the forestry sector.** The government is working with the World Bank to develop a policy framework, which will include the reform of the national log marketing company (SNBG), and an export taxation system treating in an equitable manner log and processed wood exports; currently an export tax of 20 percent is applied to most logs categories but not to processed wood. Bank staff are seeking to reach in the coming months a consensus with the authorities on a reform plan which could form the basis for Bank financial support. As an initial step, the government has commissioned a study to identify what should be the respective roles of SNBG and private operators (MEFP, para. 33); the latter have recently proposed that SNBG be transformed into a chamber of commerce in charge of promoting Gabonese logs abroad¹⁸. Operators have also argued that the operating costs of SNBG are excessive; in this context, the government has launched an accounting and financial audit of the company (MEFP, para. 41).

¹⁸ SNBG, which is jointly owned by the government and private operators with a 51 percent majority for the government, is the only operator allowed to export the two main types of timber (Okoumé and Ozigo), which it buys from private loggers. This role was given to SNBG in order to avoid underinvoicing or smuggling by private loggers, and to help small loggers sell their products. Discussions with private operators in the forestry sector are under way, to make sure that the producer price for logs paid by the SNBG fully reflects the international prices, and is paid with minimum delays.

Price liberalization

37. **The authorities concurred with the staff's recommendations to liberalize the domestic regulatory framework.** The number of products subject to administered prices (*régime de la liberté surveillée*) has been reduced in recent years; the administered price system covers at present pharmaceutical products, petroleum products, bread, school materials and supplies, edible oils, soap, mineral water, and sugar, and is based on the principle of full pass-through of costs.¹⁹ Prices of edible oils, soap, and mineral water will be liberalized by end-2003 (MEFP, para. 38). The Directorate General of Price Controls will be abolished by end-December 2003 and replaced by a Directorate General of Competition and Consumption.

Governance and transparency

38. **As underlined in the I-PRSP, the authorities consider that good governance is a determining factor in promoting growth and effective social and economic policies.** They are of the view that the establishment of the Commission Nationale de la Lutte contre l'Enrichissement Illicite (CNCEI) and the improved functioning of the judiciary system (in particular of the special criminal court (*cour criminelle spéciale*)) will have a salutary effect by injecting greater rigor in public resource management. The authorities have undertaken that the commission will publish reports on its activities on a regular basis (MEFP, para. 44). The Fund has provided assistance in the preparation of the decree on the declaration of assets, which is expected to be finalized by end-October 2003. Transparency in the management of public resources is also expected to be improved through the rigorous implementation of the new procurement code, the adoption of the ethics code for government officials before end-2003, the completion of a new, detailed budget classification system,²⁰ on which the 2004 budget law will be based, and the integration of all special funds into the budget by end-December 2004 (by end-2003 for the Road Maintenance Fund) (MEFP, para. 24).

Private sector development policies

39. **The authorities agreed with the staff that measures to improve the business climate, promote competition, and create an adequate infrastructure are essential to stimulate the growth of the non-oil sector.** Priority programs for improving infrastructure are detailed in paragraph 36 of the MEFP. A comprehensive study of the impediments to investing in Gabon will be prepared by the Foreign Investment Advisory Service (FIAS) of

¹⁹ The price control on sugar is transitional and is set to be removed at end-June 2004.

²⁰ The new budget presentation will be based on an economic and functional classification system, consistent with the *Government Finance Statistics (GFS)* manual; this work, which is being carried out with external bilateral assistance, has benefited from advice from the Fiscal Affairs Department.

the International Finance Corporation (IFC) in 2004. Reforms envisaged in the civil service should promote a shift of labor resources to the private sector. The private sector will also benefit from the planned government repayment of domestic arrears, which will provide needed liquidity. Measures to strengthen the judicial system and legal environment are detailed in paragraph 37 of the MEFP.

Social policy and poverty reduction

40. **The authorities are determined to tackle the problem of widespread poverty and weak social indicators** (Table 7). In this context, an I-PRSP that aims at bringing poverty reduction into the center of economic and social policies was adopted by the government in June 2003, and will be circulated for information to the Executive Board. The preparation of this document, which identifies priority action programs (MEFP, para. 43), received assistance from the United Nations Development Program (UNDP).²¹ The priorities identified include education, vocational training, health, water, agriculture and rural development, AIDS prevention, and improvement of living conditions. The details on the necessary measures, implementation timetable, performance indicators, and costs of these programs will be included in the full PRSP. The latter, which is expected to be completed by end-June 2004, will include updated social indicators based on the population census and the survey of household expenditure being conducted in 2003, as well as the outcome of the planned consultations.

41. The reform of the **National Social Security Fund (CNSS)** and of its health service network continues with the assistance of the International Labor Office (ILO) and the World Bank (MEFP, para. 42).

C. Medium-Term Risks, Vulnerabilities, and Debt Sustainability

42. **The medium-term balance of payments prospects depend crucially on the pace of the decline in oil production and the strength of non-oil growth.** Although the exploitation of marginal oil fields has slowed its fall, oil production is expected to continue to decline gradually from 12.3 million tons in 2003 to 8.8 million tons in 2006; as a result, oil exports are projected to decline by about 40 percent over that period, from the equivalent of 41 percent of GDP in 2003 to 24 percent in 2006 (see table below).²²

²¹ The social indicators of the I-PRSP are based on the population census of 1993, the household expenditure survey in two major towns conducted during 1993–94, the employment census of 1993, the demographic and health survey completed in 2000, and a number of studies conducted by donors, including a World Bank poverty study carried out in 1995.

²² Private non-oil investment is assumed to remain at about 20 percent of non-oil GDP, while non-oil real GDP growth will accelerate from 2.4 percent in 2003 to 4.4 percent by 2006.

43. **Medium-term debt sustainability will not be easy to achieve. It hinges on the capacity of the non-oil sector to expand rapidly to replace oil as the engine of growth.** The debt sustainability analysis (Appendix IV) indicates that, on the basis of the government medium-term program, Gabon's stock of external public and publicly guaranteed debt would increase over the medium-term from 62.6 percent of GDP in 2002 to 66.2 percent of GDP by 2006. It is projected to decline steadily thereafter, provided fiscal adjustment is maintained and non-oil growth is sustained (Table 6 and Appendix IV, Table 1). Stress tests indicate that debt ratios, while rising initially in response to negative shocks on non-oil output, the current account/primary budget balance, interest rates, and the exchange rate, would then decline over time. External debt service will continue to constitute a heavy burden on government finances and the balance of payments in the medium term, as long as non-oil revenue and exports do not pick up substantially; thus, debt service in 2004–06 will average about 21 percent of exports of goods and services, and about 37 percent of government revenue (Table 6). As mentioned above, to cover these gaps during 2004–06, the authorities intend to request debt relief from bilateral creditors, which would reduce by about one-half the debt-service burden on a cash basis.²³

44. **Baseline projections over a longer period show that, if Gabon maintains its ambitious policy of fiscal adjustment and non-oil real GDP and exports continue to grow at a rate of about 4½ percent per year, the financing gap will gradually decline and be eliminated by 2012 (Appendix IV, Tables 3 and 4).** The debt service-to-exports ratio would peak in 2008 at 32 percent of exports and would decline to about 20 percent by 2013, provided non-oil revenue remains stable at about 22 percent as a share of non-oil GDP and expenditure continues to decline gradually as a share of non-oil GDP, consistent with the smaller oil revenue base. The debt service-to-revenue ratio would also peak in 2008 at 46 percent and decline thereafter. Similarly, the external debt-to-GDP ratio would drop quite sharply after 2008, falling to 41 percent by 2013. If the assumptions underlying the baseline projections were not to materialize, the moderate decline in the debt-to-GDP ratios and the debt service ratios beyond the medium-term period would not take place. **Since the debt burden is projected to remain very heavy during the next ten years, Gabon will be highly vulnerable to any deviations from program assumptions and exogenous shocks, and will continue to require flow rescheduling over this period to be in a position to service its debt without undue adjustment.**

²³ Since Gabon's debt is primarily owed to official bilateral creditors, there is less rollover risk than in other middle-income countries with a heavy debt burden and less risk of an unforeseen increase in the cost of the debt.

Gabon: Oil Economy Indicators Over the Medium Term, 2003–06

	2003	2004	2005	2006	Average 2003–06	Percent Change 2006/03
Oil production (in millions of tons)	12.3	11.8	10.3	8.8	10.8	-28.6
Oil exports						
In billions of CFA francs	1,333.1	1,249.7	975.2	784.3	1,085.6	-41.2
In percent of total exports	77.1	74.9	68.5	61.5	70.5	-20.3
In percent of GDP	40.9	37.7	29.9	24.3	33.2	-40.6
Current account (in percent of GDP)	-2.9	-4.7	-4.6	-5.5	-4.4	-48.2
<i>Of which:</i> oil exports	8.6	6.3	6.0	4.0	6.2	-53.9
Oil revenues (in percent of total fiscal revenue)	51.1	45.0	40.3	32.9	42.3	-35.6
Oil GDP (in percent of total nominal GDP)	36.0	33.9	29.1	24.0	30.8	-33.4

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

D. Statistical Issues

45. **The authorities are aware of the importance of accurate and timely statistical data for economic management.** In this context, they have prepared a draft statistics law, with the assistance of a donor and the inputs provided by the Fund's Statistics Department. Gabon has participated in the General Data Dissemination System (GDDS), and its metadata have been posted on the Fund's external website since 2002. Significant weaknesses continue to affect the quality and timeliness of the production of balance of payments statistics. Annual balance of payments statistics are produced with a lag of one year, and quarterly data are not yet available. These weaknesses are due to inadequate customs data, a slow response to surveys, and inadequate coverage or cooperation by some key data providers. Although efforts are being made to harmonize data by the BEAC and the Ministries of Finance and Planning, the lack of sufficient trained staff at the BEAC in charge of producing balance of payments statistics has hindered the full implementation of the recommendations of the 1998 STA mission.²⁴

²⁴ The main recommendations were to (i) improve cooperation between the BEAC and the macroeconomics, national accounts, and tax directorates of the Ministry of Finance; (ii) make better use of customs data; and (iii) seek agreement at the CEMAC level to increase the number of trained personnel.

VI. PROGRAM MONITORING

46. The government has enhanced its ability to monitor the program closely, and, as indicated in the authorities' letter and the technical memorandum of understanding (TMU) (Appendix I), reports on program implementation will be produced and communicated to the Fund staff on a regular basis. The quantitative and structural benchmarks are specified, together with prior actions, in Tables 1 and 2 of the MEFP. The two test dates of the staff-monitored program are end-September and end-December 2003.

VII. STAFF APPRAISAL

47. **Gabon's past history of program implementation is poor, but important policy actions taken since mid-2002 and the broadly satisfactory track record of budgetary implementation in the first half of 2003 demonstrate the authorities' renewed commitment to implement sustained adjustment.** These measures, are, however, only a first step on the path toward an adequate record of consistent policy implementation that will be critical to any long-term solution of Gabon's debt sustainability issues and growth prospects.

48. **The authorities' medium-term program and the staff-monitored program for September-December 2003 represents an appropriate reform agenda.** The actions taken by the authorities over the last year, and those envisaged under the staff-monitored program, constitute an important step towards addressing Gabon's substantial medium-term challenges. However, staff urges the authorities to make use of the period ahead to strengthen the structural content of their policy program to enhance the prospects for non-oil growth and the likelihood of achieving a more sustainable external debt path. This is particularly critical given that there are limits to the degree of fiscal adjustment that can realistically be attained.

49. **In the fiscal area, the authorities are aiming for an ambitious reduction in the non-oil primary deficit, through cuts in primary expenditure;** meanwhile, non-oil revenue will be above the high level achieved in 2002. On the expenditure side, the staff welcomes the focus on curtailing non priority outlays and containing the wage bill through a reform of the indemnity system and a cut in the number of senior civil servants, while providing room for needed recruitment in the social sectors. The rapid implementation of the wage bill and the civil service reform is essential, in view of the excessive weight of the government wage bill in the economy, which hampers the diversification of the economy and growth. The staff underscores that the efficiency of public investment should be improved through the strengthening of the capital budget preparation and execution process. Concerning fiscal revenue, the staff welcomes the improvement in tax administration under way, which has resulted in a significant revenue rise in 2002, and the plan of action adopted to curtail exemptions. Further strengthening of tax administration is however necessary. In this regard, the authorities should seek to take advantage of the forthcoming Fund technical assistance.

50. **The authorities recognize the need to improve the competitiveness of the economy through a reduction of the overall cost structure.** To that end, the measures under way to contain public wages must be accompanied by an improvement in infrastructure, and a more business friendly regulatory environment. While some progress in these areas has been achieved, the staff is of the view that impediments to growth have to be tackled more vigorously and in a more comprehensive manner. Reforms are particularly needed in the banking sector, and to remove distortions in the forestry sector.

51. **The staff welcomes the ambitious set of structural reforms under way to increase effectiveness in the use of public resources, which are also crucial for economic growth.** In the area of public resource management, the new anticorruption legislation and enhanced transparency in the public procurement process and in budget execution could play an important role in reducing the cost of public investment, provided they are implemented with rigor.

52. **The program to restructure and privatize public enterprises is an important step forward, but has been beset in the past by severe obstacles.** The authorities will therefore need to monitor very closely the progress in enterprises' restructuring, and proceed with determination with the privatization plan, which is essential in order to attract new resources and modernize the economy. The simplification of the regulatory process, including in the area of price controls and for the creation of new enterprises, is also essential in order to attract new investment.

53. **While the banking system remains well capitalized, the increase in nonperforming loans needs to be carefully monitored, and appropriate actions taken as necessary.** There is also a need to develop institutions adapted to supporting the development of small-scale enterprises. In this context, microfinance institutions, which only recently have started to develop, should play an important role, especially in support of the new initiatives in the agricultural sector, where large untapped potential exists.

54. **As access to social services remains inadequate and social indicators are poor,** the staff underscores the need for determined efforts in this area, and welcomes that specific actions programs will be defined in the PRSP under preparation, making use of external technical assistance.

55. **The staff welcomes the progress made in the first half of 2003 toward regularizing relationships with bilateral and multilateral external partners, and emphasizes the need to remain current on non reschedulable debt.**

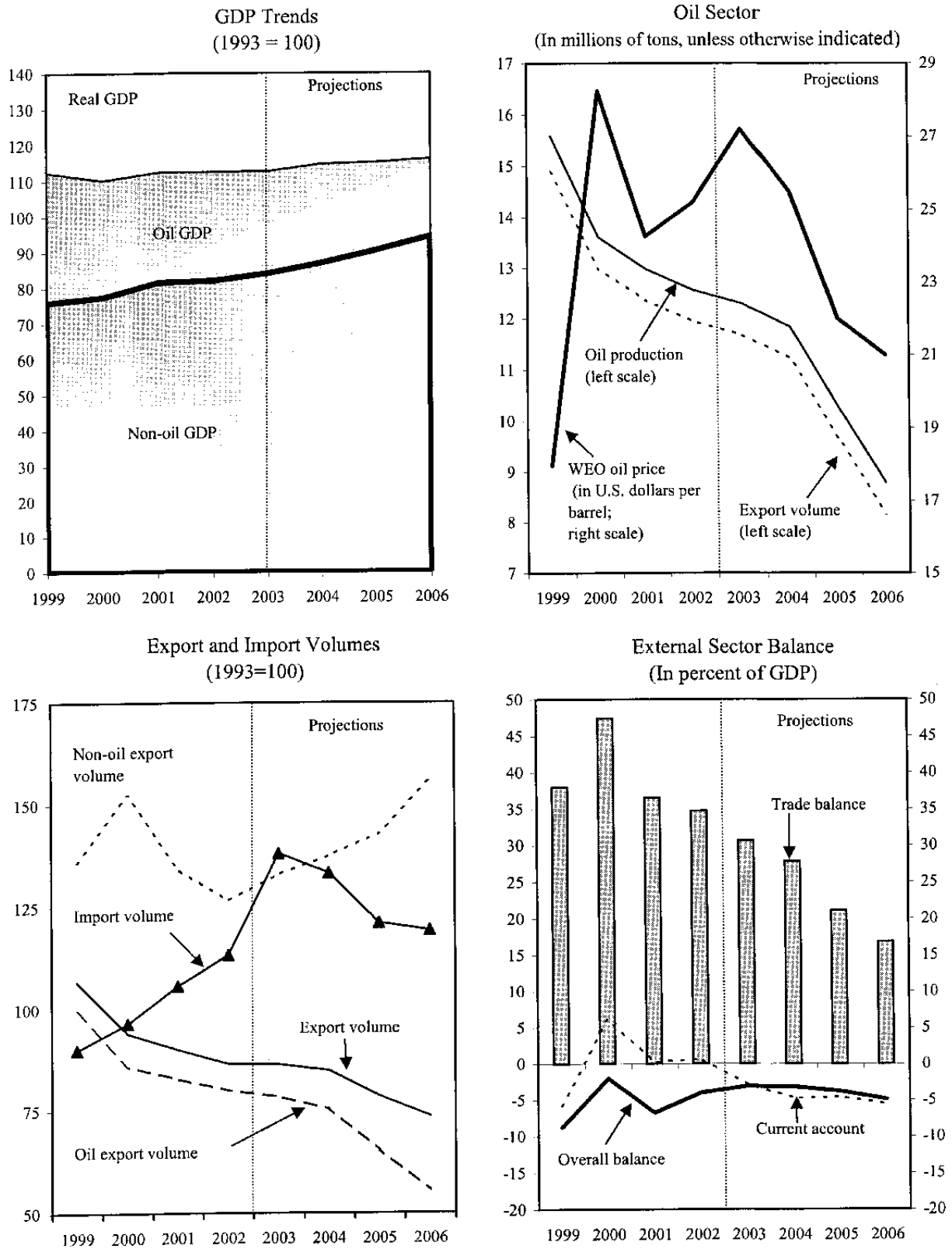
56. **The authorities have emphasized that it would be essential to mobilize rapidly external assistance and reach agreement soon on a Fund-supported program.** In view of the considerable slippages under the previous Stand-By Arrangement, and the need for sustained adjustment over the medium term, the staff welcomes the authorities' determination to establish a firm track record of policy implementation through the end of

2003. Given the high debt burden, and the associated risks and vulnerabilities, the staff underscores the need for rigorous implementation of the staff-monitored program, and to further enhance the medium-term program, especially in its structural component, in order to strengthen the case for access to Fund resources.

57. The authorities are aware of the difficult challenges that lie ahead, and have demonstrated already their commitment by addressing some of the fiscal and governance issues. The staff believes that, with the rigorous implementation of the SMP, there are favorable prospects for a rapid resumption of external financial assistance.

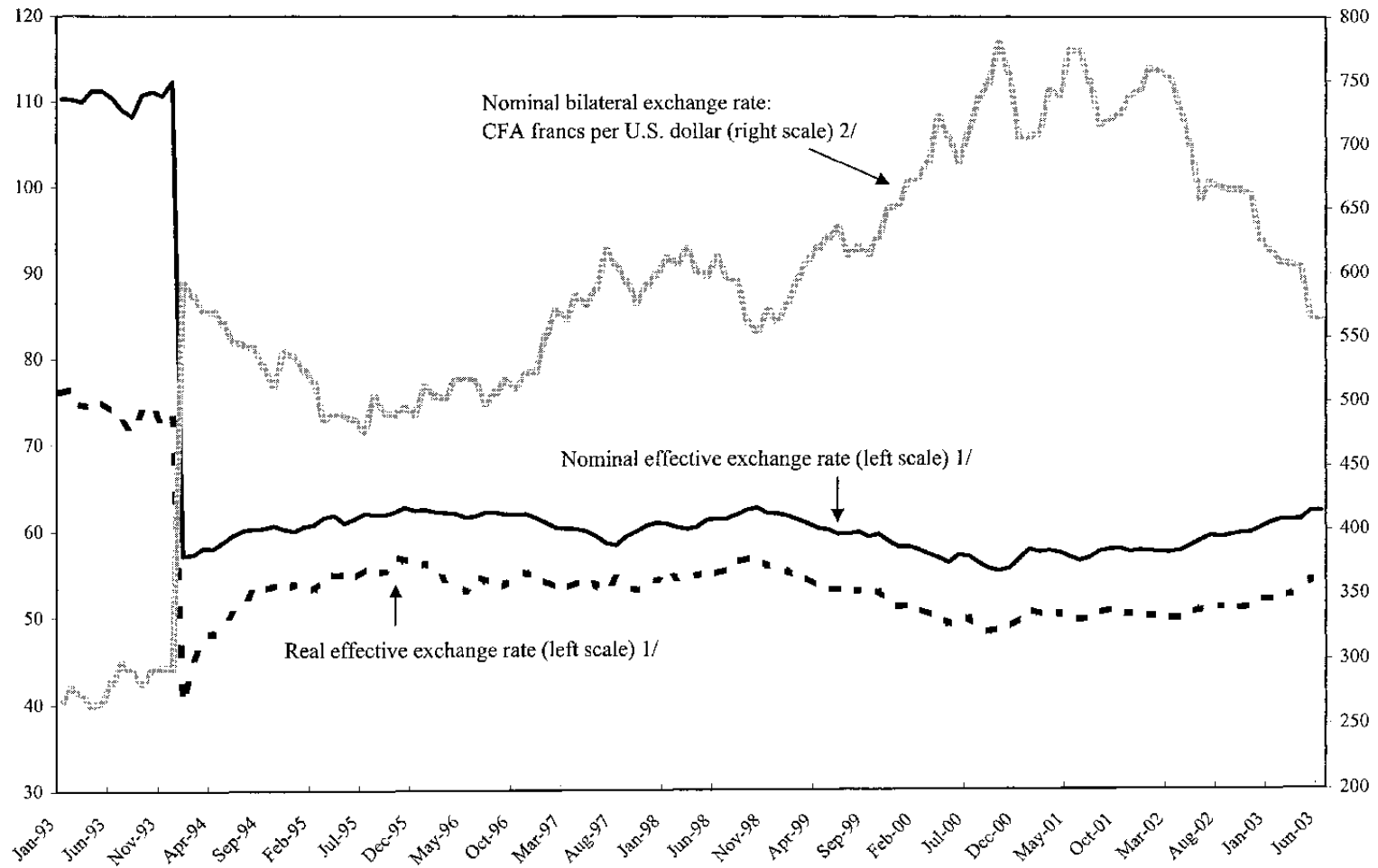
58. It is proposed that the next Article IV consultation with Gabon takes place on the standard 12-month cycle.

Figure 1. Gabon: Selected Real and External Sector Indicators, 1999–2006



Sources: Gabonese authorities; and staff estimates and projections.

Figure 2. Gabon: Nominal and Real Effective Exchange Rates, January 1993–June 2003

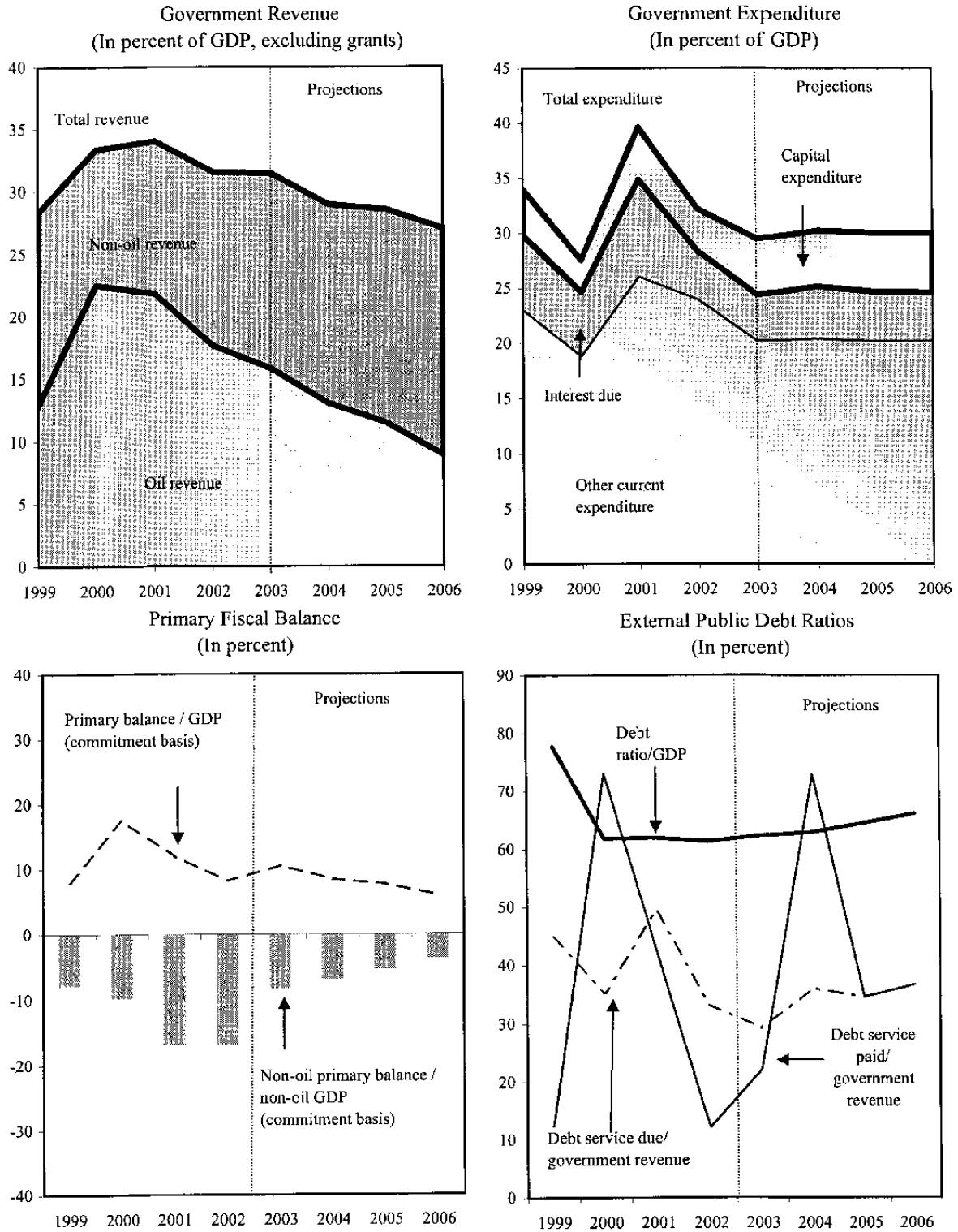


Source: IMF, *International Financial Statistics (IFS)* .

1/ Index, 1990 = 100. A decrease means a depreciation of the CFA franc.

2/ End-of-period exchange rate. A decrease means an appreciation of the CFA franc.

Figure 3. Gabon: Government Fiscal Operations, 1999–2006



Sources: Gabonese authorities; and staff estimates and projections.

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

	2000	2001	2002		2003	2004	2005	2006
			Prog EBS/01/56	Prel. est.				
(Annual percent change)								
GDP at constant prices	-1.9	2.0	-0.6	0.0	0.1	1.8	0.4	0.9
Oil	-10.2	-5.7	-12.6	-1.4	-6.0	-3.1	-11.1	-11.9
Non-oil	2.1	5.3	3.2	0.6	2.4	3.5	4.0	4.4
GDP at current prices	26.0	-4.7	-4.9	0.0	-5.5	1.7	-1.4	-1.2
GDP deflator	28.5	-6.6	-4.3	0.0	-5.7	-0.1	-1.8	-2.1
Oil	77.5	-12.7	...	1.0	-13.4	-1.4	-4.6	-7.5
Non-oil	3.0	2.2	...	-0.2	1.4	1.6	1.5	1.5
Consumer prices								
Yearly average	0.4	2.1	2.0	0.2	2.0	2.0	2.0	2.0
End of period	1.8	1.0	2.0	0.4	2.0	2.0	2.0	2.0
External sector								
Exports, f.o.b. (CFA francs)	48.2	-16.1	-10.9	-2.1	-7.9	-3.5	-14.7	-10.3
Of which: oil	59.9	-17.5	-19.1	-1.6	-10.2	-6.3	-22.0	-19.6
Imports, f.o.b. (CFA francs)	26.3	15.3	11.6	3.0	7.6	2.3	-2.0	-0.1
Export volume	-11.9	-4.2	-5.3	-3.9	-0.2	-1.7	-7.4	-6.3
Import volume	7.3	9.5	9.2	7.2	21.9	-3.5	-9.1	-1.6
Terms of trade (deterioration -)	43.0	-16.9	-8.0	5.9	4.5	-7.4	-14.5	-5.7
Nominal effective exchange rate (- = depreciation)	-5.5	1.4	...	2.3	...	...	...	...
Real effective exchange rate (- = depreciation)	-6.9	1.7	...	0.7	...	...	...	...
Central government finance								
Total revenue	48.4	-2.8	-25.0	-7.3	-5.3	-7.0	-2.7	-6.6
Oil revenue	121.0	-7.6	-43.3	-19.1	-13.5	-18.1	-12.9	-23.6
Non-oil revenue	-11.7	7.1	4.4	13.8	5.1	4.7	5.7	4.9
Total expenditure	0.8	35.1	-17.3	-8.7	-15.8	3.2	-2.6	-1.0
Current	2.1	27.5	-21.0	-20.1	-12.2	3.2	-3.9	-0.7
Capital	-11.6	55.7	8.2	-16.5	13.4	6.1	4.5	-1.8
(In percent of beginning-of-period broad money, unless otherwise indicated)								
Money and credit								
Net domestic assets	-31.5	42.6	...	-2.1	4.0	-5.5	...	...
Domestic credit	-33.7	38.8	...	-1.8	8.2	-5.5	...	...
Central government	-39.3	27.4	...	-9.1	1.2	-15.3	...	...
Credit to the economy	8.3	11.8	...	6.4	7.0	9.8	...	...
(annual percentage change)	11.7	17.4	...	8.7	9.3	12.0	...	...
Broad money	18.0	7.5	3.6	5.7	1.4	7.4	...	...
Velocity of broad money (non-oil GDP)	3.5	3.5	3.8	3.1	3.4	3.4	...	...
(In percent of GDP, unless otherwise indicated)								
Gross national savings	28.0	26.0	28.4	25.1	23.7	21.5	22.1	21.2
Government	14.6	8.0	10.6	7.5	11.5	8.7	8.9	7.2
Private sector	13.4	18.0	17.9	17.6	12.3	12.9	13.2	14.0
Gross domestic savings	56.2	49.1	44.6	47.7	45.7	44.6	39.3	36.3
Government	19.7	15.9	15.9	10.9	14.7	12.7	12.3	10.7
Private sector	36.4	33.2	28.7	36.8	30.9	31.9	27.0	25.7
Gross fixed investment	21.8	25.8	28.8	24.4	26.6	26.3	26.7	26.8
Government	2.9	4.7	4.6	4.0	4.8	5.0	5.3	5.2
Private sector	18.9	21.0	24.2	20.5	21.9	21.3	21.4	21.5
Nominal GDP (in billions of CFA francs)	3,618.3	3,448.5	2,947.5	3,448.9	3,257.8	3,312.4	3,265.0	3,225.0
Central government								
Primary budget balance (commitment basis)	17.5	12.0	12.0	7.9	10.9	8.4	7.7	6.0
Overall balance (commitment basis, incl. grants)	11.6	3.2	6.0	3.5	6.7	3.7	3.6	2.0
Overall balance (commitment basis, excl. grants)	11.6	3.2	6.0	3.4	6.6	3.5	3.4	1.8
Overall balance (cash basis)	4.0	4.8	6.0	3.5	6.0	-1.6	3.1	2.0
Domestic bank financing	-4.9	4.2	-1.4	-1.5	0.2	-2.8	-2.3	-1.3
Net external financing	4.4	-6.2	-4.3	-2.2	-3.4	-10.0	-5.0	-4.9
Financing gap	0.0	0.0	1.5	0.0	0.0	16.1	5.7	5.8
External current account balance (including official transfers)	6.2	0.3	-0.3	0.7	-2.9	-4.7	-4.6	-5.5
External current account balance (excluding official transfers)	6.2	0.3	-0.3	0.6	-3.0	-4.9	-4.7	-5.7
External debt service paid (percent of government revenue) 1/	20.1	41.0	34.4	13.3	22.7	...	...	...
External public debt (including the Fund and gap financing)	63.6	63.6	59.7	62.6	63.3	63.5	64.7	66.2
Total public debt (including the Fund and gap financing)	73.0	75.8	...	76.6	76.0	71.6	69.5	68.9

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		Quarterly Projections 1/									
	Est. 09/2002	Budget law 6/7/02	Est.	Dec.	2003				2004					
					Mar. Proj.	Est.	Jun. Proj.	Est.	Sept. Proj.	Est.	Dec. Proj.	Mar.	Jun.	Est.	Dec.
Total revenue and grants	1,173.6	999.6	1,089.9	269.9	283.4	541.7	575.6	763.0	798.2	1,034.1	244.1	494.1	714.3	964.9
Revenue	1,173.6	997.7	1,088.0	269.3	283.4	540.5	575.6	761.1	797.7	1,030.2	242.9	491.6	710.5	958.5
Oil revenue	752.9	510.0	609.0	156.9	171.8	287.8	337.8	393.7	448.7	526.6	126.8	230.3	330.7	431.2
Non-oil revenue	420.7	487.7	479.0	112.4	111.6	252.7	237.7	367.5	349.0	503.6	116.0	261.4	379.8	527.3
Direct taxes	96.6	131.3	134.2	32.8	33.0	79.2	70.0	105.1	88.8	136.5	34.6	83.6	111.0	144.1
Indirect taxes	70.8	99.1	83.5	21.2	27.9	44.7	60.3	69.3	82.5	113.8	22.6	47.6	73.7	118.9
Taxes on international trade	218.4	225.0	210.0	46.1	40.3	104.2	86.6	156.1	145.5	204.0	48.3	109.1	163.4	222.0
Import taxes	187.8	192.0	180.9	40.6	33.1	90.5	74.1	136.7	123.4	176.7	42.5	94.6	142.8	193.0
Export taxes	30.6	33.0	29.1	5.5	7.2	13.7	12.5	19.4	22.1	27.3	5.8	14.5	20.6	29.0
Other revenue	35.0	32.3	51.3	12.3	10.4	24.7	20.8	37.0	32.2	49.3	10.6	21.1	31.7	42.3
Foreign grants	0.0	1.9	1.9	0.6	0.0	1.3	0.0	1.9	0.5	3.9	1.3	2.5	3.8	6.4
Total expenditure and net lending	1,061.9	843.2	969.2	193.0	152.6	368.2	349.1	568.5	547.5	815.9	203.4	392.0	601.6	842.1
Total expenditure, excluding interest payments	758.2	685.4	817.9	151.2	111.0	295.4	278.9	463.2	440.9	678.7	151.7	305.1	470.8	685.6
Current expenditure	860.4	650.3	687.4	159.7	136.7	288.5	284.9	430.8	441.0	603.9	170.5	304.4	459.2	622.9
Wages and salaries	219.6	217.0	220.6	56.7	58.6	107.9	112.4	162.4	170.4	223.0	56.7	107.9	162.4	218.0
Purchases of goods and services	177.0	148.6	156.7	31.7	18.5	57.1	55.3	90.0	89.9	126.8	33.2	59.7	94.1	132.6
Water and electricity	0.0	10.2	14.6	2.8	2.7	5.6	5.4	8.5	8.1	11.2	2.8	5.6	8.5	11.2
Telephone services 2/	0.0	32.3	32.5	2.4	3.4	4.7	5.1	7.2	7.3	9.5	2.4	4.7	7.2	9.5
Other (petrol, transport, travel, etc.)	0.0	106.1	109.6	26.5	12.4	46.7	44.8	74.3	74.5	106.1	28.0	49.3	78.4	111.9
Transfers and subsidies	160.1	126.9	158.8	29.5	18.0	50.7	47.1	73.1	74.1	116.9	29.0	49.8	71.9	115.9
Public enterprises	0.0	30.6	38.3	4.6	4.9	9.2	14.4	12.9	29.5	18.5	4.1	8.3	11.6	16.6
Other	0.0	96.3	120.5	24.9	13.1	41.5	32.7	60.2	44.6	98.4	24.8	41.6	60.3	99.4
Interest payments	303.7	157.8	151.3	41.8	41.6	72.8	70.2	105.3	106.6	137.2	51.8	87.0	130.8	156.5
Domestic	34.3	29.3	33.7	7.4	7.0	14.3	13.6	21.0	19.7	27.1	7.4	10.0	18.0	18.5
External	269.4	128.5	117.6	34.4	34.6	58.5	56.6	84.3	86.9	110.1	44.4	77.0	112.8	138.0
Capital expenditure	163.6	161.9	136.6	24.8	3.6	56.9	43.2	100.7	72.8	155.0	24.7	65.8	106.9	164.5
Net lending (including equity participation) 3/	37.9	31.0	17.1	0.0	0.0	0.0	0.3	0.0	0.3	0.0	0.0	0.0	0.0	0.0
Restructuring cost of public enterprises	0.0	0.0	67.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Air Gabon (suppliers debt taken over)	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
National Social Security Fund (CNSS) (debt to CNSS taken over)	0.0	0.0	36.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Road Maintenance Fund (FER) and special funds	0.0	0.0	60.5	8.6	12.3	22.8	20.7	37.1	33.5	57.0	8.2	21.9	35.5	54.7
Overall balance (on a commitment basis)	111.7	156.4	120.7	76.9	130.8	173.5	226.5	194.5	250.7	218.3	40.7	102.1	112.6	122.8
Primary balance (on a commitment basis)	415.4	314.2	272.0	118.7	172.4	246.3	296.7	299.8	357.3	355.4	92.4	189.1	243.4	279.3
Change in payments arrears	54.7	-76.4	1.1	-13.9	-46.6	-45.4	-66.5	-69.6	-60.3	-83.4	-6.3	-155.0	-160.1	-174.8
External (on interest payments)	26.2	-28.9	81.1	-13.1	18.3	-26.2	6.6	-26.2	20.2	-25.5	0.0	-142.2	-142.2	-142.2
Domestic	28.5	-47.5	-79.9	-0.8	-64.9	-19.2	-73.1	-43.3	-80.6	-57.9	-6.3	-12.8	-17.9	-32.6
Arrears on interest on domestic debt	2.3	-2.3	1.5	-0.8	0.9	-1.7	1.5	-2.5	2.7	-3.3	0.0	0.0	0.0	0.0
Floater (unpaid payment orders at the treasury)	26.8	-45.2	-53.8	0.0	-59.5	-15.0	-72.8	-37.5	-64.3	-46.7	-5.1	-10.3	-14.5	-27.6
Other floater at the treasury 4/	0.6	0.0	-22.5	0.0	-5.7	0.0	-0.2	0.0	-16.5	-2.9	0.0	0.0	0.0	0.0
Compensation for political violence	-1.2	0.0	-5.1	0.0	-0.6	-2.5	-1.7	-3.3	-2.5	-5.0	-1.3	-2.5	-3.3	-5.0
Overall balance (on a cash basis)	166.3	80.0	121.8	63.0	84.1	128.1	160.0	124.9	190.4	134.9	34.3	-52.9	-47.5	-52.0
Financing	-166.3	-270.0	-121.8	-109.5	-84.1	-205.8	-160.0	-250.3	-190.4	-291.1	-82.2	-367.4	-436.5	-479.9
External (net)	-213.1	-219.4	-76.9	-78.3	-57.1	-147.0	-105.0	-187.6	-122.2	-205.6	-51.6	-278.5	-322.2	-331.6
Drawings	9.3	40.0	17.7	6.1	0.9	16.8	0.9	27.4	2.1	32.5	5.1	29.3	38.6	82.0
Project financing	9.3	40.0	17.7	6.1	0.9	16.8	0.9	27.4	2.1	32.5	5.1	14.3	23.6	37.0
Program financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	15.0	15.0	45.0
Amortization	-309.7	-228.4	-243.6	-50.3	-52.3	-95.5	-100.1	-146.8	-154.8	-191.7	-54.7	-107.7	-160.6	-207.5
Arrears on principal (reduction -)	35.0	-31.0	135.8	-34.1	-5.7	-68.2	-5.8	-68.2	25.4	-56.5	0.0	-198.1	-198.1	-210.1
Foreign exchange effect on arrears/unexplained external debt payments	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 rescheduling	29.4	0.0	1.3	0.0	0.0	0.0	0.0	0.0	0.0	2.0	-2.0	-2.0	-2.0	-2.0
Debt cancellation	17.0	0.0	11.9	0.0	0.0	0.0	0.0	0.0	5.1	8.0	0.0	0.0	0.0	6.0
Advance external debt payments	5.9	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

Table 2. Gabon: Fiscal Operations of the Central Government, 2001–04

(In billions of CFA francs, unless otherwise indicated)

	2001		2002		Quarterly Projections 1/									
	Est. 09/2002	Budget law 6/7/02	Est.	Dec.	2003				2004					
					Mar. Proj.	Est.	Jun. Proj.	Est.	Sept. Proj.	Est.	Dec. Proj.	Mar.	Jun.	Sep.	Dec.
Domestic (net)	46.7	-50.6	-44.9	-31.2	-27.1	-58.8	-55.0	-62.7	-68.2	-85.4	-30.5	-88.9	-114.3	-148.3
Banking system	144.7	-34.1	-51.5	3.4	-17.2	-5.3	-4.4	8.8	23.8	7.1	-11.7	-39.4	-54.5	-93.0
Bank of Central African States (BEAC)	109.5	-25.6	-92.9	6.7	-1.7	1.4	36.7	18.8	36.5	20.5	-8.4	-27.4	-41.5	-79.3
Commercial banks	35.2	-8.5	41.4	-3.3	-15.5	-6.7	-41.1	-10.0	-12.7	-13.4	-3.3	-11.9	-13.0	-13.7
Nonbank sources	-98.0	-16.5	6.6	-34.6	-9.8	-53.6	-50.6	-71.5	-92.0	-92.6	-18.8	-49.5	-59.8	-55.3
Domestic debt	-89.7	-59.2	-75.4	-32.3	-19.3	-46.9	-40.1	-57.6	-54.9	-62.2	-15.7	-43.3	-50.5	-62.9
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 (DGCP)	-72.9	-54.2	-69.1	-31.0	-19.3	-44.4	-39.6	-56.7	-52.4	-55.2	-13.2	-38.3	-43.0	-52.9
Securitized commercial agreements	-66.9	-36.5	-36.0	-5.5	-5.5	-11.0	-11.0	-15.4	-15.4	-19.8	-4.1	-12.0	-13.4	-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) 5/	-5.9	-17.7	-33.1	-25.5	-13.8	-33.4	-28.7	-41.3	-37.0	-35.4	-9.2	-26.2	-29.5	-36.6
Regularization of civil servants' salaries (rappels)	-7.8	-5.0	-6.3	-1.3	0.0	-2.5	-0.5	-1.0	-2.5	-7.0	-2.5	-5.0	-7.5	-10.0
Change in domestic arrears (on principal, - reduction)	6.1	-10.2	14.1	-5.5	0.7	-11.1	5.4	-16.6	7.9	-22.1	0.0	0.0	0.0	0.0
Restructuring cost 6/	-5.6	-36.0	47.9	-0.8	-1.9	-1.6	-2.0	-2.5	-3.7	-11.3	-3.1	-6.3	-9.4	-9.8
Social costs	-5.6	-16.7	-17.6	-0.8	-1.9	-1.6	-2.0	-2.5	-3.7	-11.3	-3.1	-6.3	-9.4	-9.8
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	...	-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
Gabon Telecom/ Office des Postes et Télécommunication (OPTR) financing	...	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	...	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	1.0	1.0	0.0	0.0	0.0	17.4
Other	-21.2	-5.0	-21.4	3.0	9.7	5.0	-14.8	4.2	-42.3	2.0	0.0	0.0	0.0	0.0
Treasury correspondents, incl. pensions	1.8	0.0	1.4	2.0	-5.4	3.0	-12.6	1.2	-22.5	1.0	0.0	0.0	0.0	0.0
Collectivités locales 7/	-6.2	0.0	-7.9	1.0	2.3	2.0	2.6	3.0	-5.0	1.0	0.0	0.0	0.0	0.0
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
Checks written but not cashed at treasury	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
Errors and omissions	-16.8	-5.0	-14.9	0.0	12.8	0.0	-4.8	0.0	-14.8	0.0	0.0	0.0	0.0	0.0
Financing gap before use of Fund resources 1/	0.0	190.0	0.0	46.5	0.0	77.7	0.0	125.5	0.0	156.2	47.8	420.3	483.9	531.8
Financing sources	...	...	...	46.5	...	77.7	...	125.5	...	156.2	39.3	403.3	458.4	497.8
Reschedulable debt service	...	...	...	46.5	...	77.7	...	125.5	...	156.2	39.3	403.3	458.4	497.8
Use of Fund resources	...	...	...	0.0	...	0.0	...	0.0	...	0.0	0.0	0.0	0.0	0.0
Memorandum items:														
Primary fiscal balance (in percent of GDP)	12.0	9.5	7.9	3.6	5.3	7.6	9.1	9.2	11.0	10.9	2.8	5.7	7.3	8.4
Non-oil primary balance (in percent of non-oil GDP)	-16.8	-9.4	-16.8	-1.8	0.0	-2.0	-2.0	-4.5	-4.4	-8.2	-1.6	-1.9	-4.0	-6.9
Stock of unpaid payments orders at the treasury	177.6	104.3	123.8	123.8	64.3	108.8	51.0	86.3	59.5	77.1	72.0	66.8	62.6	49.5

Sources: Gabonese authorities; and staff estimates and projections.

1/ During 2003, the government pays end-2002 nonreschedulable arrears (CFAF 82 billion) and accumulates arrears on reschedulable current maturities (CFAF 156 billion). The stock of reschedulable arrears at end-2003 is projected at CFAF 340 billion. This stock, together with the reschedulable current maturities in 2004 (CFAF 158 billion), is projected to be rescheduled in 2004.

2/ 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.

3/ 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).

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

5/ Including old debt repayments to Société d'Eau et d'Energie 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.

6/ 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.

7/ Collectivités locales consist of variations in local entities' account balances and fonds d'équipement.

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

	2000		2001		2002	2003	2004	2005	2006
	Prog.	Est.	Prog.	Est.					
	EBS/01/56						Projections		
(In billions of CFA francs)									
Total revenue and grants	1,098.5	1,207.6	1,235.1	1,173.6	1,089.9	1,034.1	964.9	937.9	876.3
Revenue	1,098.5	1,207.6	1,235.1	1,173.6	1,088.0	1,030.2	958.5	932.9	871.3
Oil revenue	699.3	814.7	760.1	752.9	609.0	526.6	431.2	375.6	287.0
Non-oil revenue	399.1	392.9	475.0	420.8	479.0	503.6	527.3	557.3	584.3
Direct taxes	84.8	81.9	89.3	96.6	134.2	136.5	144.1	152.2	159.1
Indirect taxes	81.3	80.2	90.4	70.8	83.5	113.8	118.9	128.5	135.6
Taxes on international trade	209.3	214.7	268.2	218.4	210.0	204.0	222.0	231.2	241.6
Import taxes	173.3	186.7	230.3	187.8	180.9	176.7	193.0	200.6	208.4
Of which									
VAT	...	83.6	...	92.0	88.6	86.6	94.6	98.3	102.1
Export taxes	36.0	28.0	37.9	30.6	29.1	27.3	29.0	30.6	33.2
Other revenue 1/	23.8	16.1	27.1	35.0	51.3	49.3	42.3	45.3	47.9
Foreign grants	0.0	0.0	0.0	0.0	1.9	3.9	6.4	5.0	5.0
Total expenditure (including net lending)	763.6	786.1	907.1	1,061.9	969.2	815.9	842.1	820.5	811.9
Total expenditure (excluding interest payments)	567.7	574.1	580.1	758.2	817.9	678.7	685.6	687.1	682.4
Current expenditure	655.2	674.8	782.0	860.4	687.4	603.9	622.9	598.8	594.7
Wages and salaries	216.1	216.6	217.9	219.6	220.6	223.0	218.0	215.0	212.0
Purchases of goods and services	129.0	128.3	133.6	177.0	156.7	126.8	132.6	134.6	137.2
Transfers and subsidies	114.2	117.8	103.5	160.1	158.8	116.9	115.9	115.9	119.9
Interest payments	195.9	212.0	327.0	303.7	151.3	137.2	156.5	133.4	129.5
Domestic	25.1	27.8	33.1	34.3	33.7	27.1	18.5	16.5	14.5
External (excluding IMF)	170.8	184.2	293.9	269.4	117.6	110.1	138.0	116.9	115.1
Capital expenditure	102.1	105.1	125.1	163.6	136.6	155.0	164.5	172.0	168.8
Domestically financed investment	82.1	82.4	105.1	154.3	117.0	122.5	122.5	125.0	117.8
Foreign-financed investment	20.0	22.7	20.0	9.3	19.6	32.5	42.0	47.0	51.0
Net lending (including equity participation)	6.2	6.2	0.0	37.9	17.1	0.0	0.0	0.0	0.0
Restructuring cost of public enterprises 2/	0.0	0.0	0.0	0.0	67.5	0.0	0.0	0.0	0.0
Road Maintenance Fund (FER) and special funds 3/	...	...	...	...	60.5	57.0	54.7	49.7	48.4
Overall balance (on a commitment basis)	334.9	421.5	328.0	111.7	120.7	218.3	122.8	117.4	64.4
Primary balance (on a commitment basis)	530.8	633.5	655.0	415.4	272.0	355.4	279.3	250.7	193.9
Change in arrears	-220.8	-276.1	-51.8	54.7	1.1	-22.9	-174.8	-15.0	0.0
External (on interest payments)	-202.3	-201.3	0.0	26.2	81.1	35.0	-142.2	0.0	0.0
Domestic	-18.6	-74.9	-51.8	28.5	-79.9	-57.9	-32.6	-15.0	0.0
Overall balance (on a cash basis)	114.1	145.4	276.2	166.4	121.9	195.4	-52.0	102.4	64.4
Financing	-114.1	-145.4	-276.2	-166.3	-121.8	-195.4	-479.9	-287.3	-250.1
External (net)	50.4	160.2	-238.1	-213.1	-76.9	-109.9	-331.6	-163.7	-158.9
Drawings	20.0	22.7	20.0	9.3	17.7	32.5	82.0	42.0	46.0
Project financing	20.0	22.7	20.0	9.3	17.7	32.5	37.0	42.0	46.0
Program financing	0.0	0.0	0.0	0.0	0.0	0.0	45.0	0.0	0.0
Amortization	-208.5	-242.1	-281.0	-309.7	-243.6	-191.7	-207.5	-205.7	-204.9
Arrears (on principal)	-270.1	-271.6	0.0	35.0	135.8	39.2	-210.1	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	492.0	649.5	0.0	29.4	1.3	2.0	-2.0	0.0	0.0
Debt cancellation	17.0	17.0	17.0	17.0	11.9	8.0	6.0	0.0	0.0
Advance external debt payment	0.0	-5.9	5.9	5.9	0.0	0.0	0.0	0.0	0.0
Domestic (net)	-164.5	-305.7	-38.2	46.7	-44.9	-85.4	-148.3	-123.6	-91.2
Banking system	-91.6	-175.6	0.2	144.7	-51.5	7.1	-93.0	-76.0	-43.1
Bank of Central African States	-25.3	-59.1	15.3	109.5	-92.9	20.5	-79.3	-62.1	-36.2
Of which : IMF	17.6	5.4	-7.9	-8.1	-9.1	-7.9	-13.7	-14.5	-4.0
Repayment statutory advances	0.0	0.0	0.0	0.0	0.0	0.0	-10.0	-10.0	-10.0
Commercial banks	-66.4	-115.5	-15.1	35.2	41.4	-13.4	-13.7	-13.9	-6.9
Nonbank sources	-72.9	-130.3	-38.4	-98.0	6.6	-92.6	-55.3	-47.5	-48.1
Domestic debt	-82.2	-115.0	-40.7	-80.7	-75.4	-62.2	-62.9	-42.5	-38.2
Oil company advances (net)	-38.0	-36.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt Department (DGCP)	-44.2	-72.1	-35.7	-72.9	-69.1	-55.2	-52.9	-32.5	-28.2
Debt at treasury	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Regularization of civil servants' salaries (<i>rappels</i>)	0.0	-6.5	-5.0	-7.8	-6.3	-7.0	-10.0	-10.0	-10.0
Change in domestic arrears (on principal, - reduction)	0.0	-2.0	0.0	6.1	14.1	-22.1	0.0	0.0	0.0
Restructuring cost	-4.0	-5.5	-13.4	-5.6	47.9	-11.3	-9.8	-5.0	-9.9
Debt rescheduling	0.0	0.0	0.0	0.0	39.6	0.0	0.0	0.0	0.0
Privatization proceeds	13.3	4.0	17.5	3.4	1.8	1.0	17.4	0.0	0.0
Other 4/	0.0	-11.8	-1.8	-21.2	-21.4	2.0	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	531.8	184.9	185.8
Possible rescheduling 5/	...	...	...	...	...	...	497.8	156.2	157.1

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

	2000		2001		2002	2003	2004	2005	2006
	Prog.	Est.	Prog.	Est.					
	EBS/01/56						Projections		
Memorandum items: (In percent of GDP, unless otherwise specified)									
Cumulative variation in net bank credit to the government from January 1, 2000 (in billions CFA francs)	-91.6	-175.6	-175.4	-30.9	...	...	...	...	...
Total revenue (excluding grants)	32.4	33.4	39.9	34.0	31.5	31.6	28.9	28.6	27.0
Oil revenue	20.6	22.5	24.5	21.8	17.7	16.2	13.0	11.5	8.9
Non-oil revenue	11.8	10.9	15.3	12.2	13.9	15.5	15.9	17.1	18.1
Total expenditure	22.5	21.7	29.3	30.8	28.1	25.0	25.4	25.1	25.2
Total expenditure, excluding interest	16.7	15.9	18.7	22.0	23.7	20.8	20.7	21.0	21.2
Current expenditure	19.3	18.7	25.2	25.0	19.9	18.5	18.8	18.3	18.4
Wage bill	6.4	6.0	7.0	6.4	6.4	6.8	6.6	6.6	6.6
Other current spending	7.2	6.8	7.7	9.8	9.1	7.5	7.5	7.7	7.8
Interest	5.8	5.9	10.6	8.8	4.4	4.2	4.7	4.1	4.0
Capital expenditure	3.0	2.9	4.0	4.7	4.0	4.8	5.0	5.3	5.2
Net lending	0.2	0.2	0.0	1.1	0.5	0.0	0.0	0.0	0.0
Restructuring cost of public enterprises	0.0	0.0	0.0	0.0	2.0	0.0	0.0	0.0	0.0
Road fund and special funds	...	...	...	...	1.8	1.7	1.7	1.5	1.5
Defense expenditure 6/	...	1.8	...	1.9	1.9	2.0	1.9	1.8	1.8
Primary balance (on a commitment basis)	15.6	17.5	21.1	12.0	7.9	10.9	8.4	7.7	6.0
Overall balance (on a commitment basis)	9.9	11.6	10.6	3.2	3.5	6.7	3.7	3.6	2.0
Overall balance (on a cash basis)	3.4	4.0	8.9	4.8	3.5	6.0	-1.6	3.1	2.0
(In percent of non-oil GDP)									
Non-oil revenue	22.2	21.2	23.8	21.1	23.9	24.2	24.1	24.1	23.8
Primary expenditure	31.5	30.9	29.0	37.9	40.8	32.6	31.3	29.7	27.8
Wage bill	12.0	11.7	10.9	11.0	11.0	10.7	9.9	9.3	8.7
Non-oil primary balance	-9.4	-9.8	-5.3	-16.9	-16.8	-8.2	-6.9	-5.4	-3.3
(in billions of CFA francs, unless otherwise indicated)									
Oil prices (in U.S. dollars/barrel) 7/	26.5	28.2	23.0	24.3	25.2	27.2	25.5	22.0	21.0
GDP at market prices	3,393	3,618	3,098	3,448	3,449	3,258	3,312	3,265	3,225
Non-oil GDP at market prices	1,801	1,857	1,999	1,998	2,006	2,084	2,191	2,314	2,451
Fund for Future Generations (stock)	...	...	...	...	70.4	41.9	85.1	122.6	151.3

Sources: Gabonese authorities; and staff estimates and projections.

1/ For 1999, includes CFAF 94.9 billion (3.4 percent of GDP) in tax arrears recovered as a result of the audit of the domestic public debt.

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

3/ Outlays of the Road Maintenance Fund (FER) and special funds are recorded off budget.

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

5/ The end-2003 reschedulable arrears (CFAF 340 billion) and the 2004 current maturities (CFAF 158 billion) are projected to be rescheduled in 2004.

6/ Defense spending is partly included under current expenditure and partly under capital spending, in line with Gabon's existing budget classification. The budget classification is being revised, so as to include all defense spending under current expenditure.

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

Table 4. Gabon: Balance of Payments, 2000-06

	2000		2001	2002	2003	2004	2005	2006
	Prog.	Actual	Est.	Prel. Est.		Projections		
(In billions of CFA francs)								
Current account (including transfers)	207.5	222.9	8.9	22.8	-93.6	-156.5	-149.3	-178.6
Exports, f.o.b.	2,133.9	2,288.5	1,919.0	1,878.1	1,729.1	1,668.2	1,422.7	1,275.7
Oil sector	1,704.5	1,827.8	1,508.7	1,484.2	1,333.1	1,249.7	975.2	784.3
Other sectors	429.4	460.7	410.3	393.9	396.0	418.5	447.5	491.4
Imports, f.o.b. 1/	-712.2	-572.8	-660.6	-680.7	-732.1	-748.8	-734.0	-733.6
Oil sector	-188.9	-285.4	-300.2	-277.0	-285.4	-284.8	-251.2	-234.6
Government	-44.5	-17.5	-76.6	-64.1	-68.8	-72.9	-76.0	-75.8
Non-oil private sector	-478.8	-250.0	-283.9	-339.6	-377.9	-391.0	-406.9	-423.2
Trade balance	1,421.7	1,715.7	1,258.4	1,197.4	996.9	919.3	688.6	542.1
Services (net)	-1,100.6	-1,457.4	-1,215.9	-1,143.0	-1,062.8	-1,050.3	-811.5	-694.7
Of which								
Interest on public debt	-173.5	-187.0	-271.5	-120.9	-110.9	-138.8	-117.4	-115.3
Profits	-431.7	-779.1	-472.9	-610.3	-558.8	-579.9	-400.0	-326.0
Transfers (net)	-113.6	-35.3	-33.6	-31.6	-27.7	-25.6	-26.5	-26.0
Public	0.0	0.0	0.0	1.9	3.9	6.4	5.0	5.0
Private	-177.1	-35.3	-33.6	-33.5	-31.7	-32.0	-31.5	-31.0
Capital account	12.1	-286.4	-241.2	-159.5	-6.3	51.1	25.6	20.7
Medium- and long-term capital	12.1	-286.4	-249.3	-140.1	24.2	71.3	37.6	45.0
Government	-188.5	-219.4	-300.4	-225.9	-159.2	-125.5	-163.7	-158.9
Drawings	20.0	22.7	9.3	17.7	32.5	82.0	42.0	46.0
Project	20.0	22.7	9.3	17.7	32.5	37.0	42.0	46.0
Other	0.0	0.0	0.0	0.0	0.0	45.0	0.0	0.0
Amortization	-208.5	-242.1	-309.7	-243.6	-191.7	-207.5	-205.7	-204.9
Direct investment and portfolio investment	166.4	-122.5	-17.4	22.8	110.0	120.0	120.0	120.0
Private debt	34.1	55.5	68.5	63.0	73.4	76.8	81.3	84.0
Oil sector	13.7	19.9	19.9	21.3	22.6	23.7	24.6	25.4
Drawings	86.5	39.9	37.9	37.5	37.2	36.8	36.4	36.0
Amortization	-72.8	-20.0	-18.0	-16.2	-14.6	-13.1	-11.8	-10.6
Non-oil sector	20.4	35.6	48.6	41.7	50.8	53.2	56.7	55.6
Drawings	32.0	41.4	53.8	46.6	55.8	58.5	62.4	64.8
Amortization	-11.6	-5.8	-5.2	-5.0	-5.0	-5.3	-5.7	-6.2
Short-term capital	-189.1	0.0	8.2	-19.4	-30.5	-20.3	-12.0	-24.4
Oil sector	-201.7	-57.4	-83.4	-69.5	-29.8	-5.3	7.0	-2.4
Non-oil sector	12.5	-116.3	91.5	50.1	-0.8	-15.0	-19.0	-22.0
Of which								
Commercial banks	-41.6	-106.3	66.5	47.9	0.0	0.0	0.0	0.0
Errors and omissions	0.0	173.7	0.0	0.0	0.0	0.0	0.0	0.0
Overall Balance	30.4	-72.8	-232.3	-136.7	-99.9	-105.5	-123.7	-157.9
Financing	-30.4	72.8	232.3	136.7	99.9	426.4	-61.2	-27.8
Central bank net foreign assets (- = increase)	-67.0	-114.9	118.8	-92.0	15.7	-78.0	-61.2	-27.8
IMF net (- = increase)	17.6	5.4	-8.1	-9.1	-7.9	-13.7	-14.5	-4.0
Purchases	24.5	12.4	0.0	0.0	0.0	0.0	0.0	0.0
Repurchases	-6.9	-7.0	-8.1	-9.1	-7.9	-13.7	-14.5	-4.0
Change in gross reserves (- = increase)	-84.7	-120.3	127.0	-82.9	23.6	-64.4	-46.7	-23.8
Debt rescheduling/deferral	492.0	649.5	29.4	0.0	2.0	-2.0	0.0	0.0
Debt cancellation	17.0	17.0	17.0	11.9	8.0	6.0	0.0	0.0
Arrears (- = reduction)	-472.4	-472.8	61.2	216.9	74.2	-352.3	0.0	0.0
Other exceptional financing	0.0	-5.9	5.9	0.0	0.0	0.0	0.0	0.0
Financing gap 2/	0.0	0.0	0.0	0.0	0.0	531.8	184.9	185.8
Possible rescheduling 2/	...	...	...	...	...	497.8	156.2	157.1
Memorandum items: (In percent of GDP, unless indicated otherwise)								
Current account (including official transfers)	6.1	6.2	0.3	0.7	-2.9	-4.7	-4.6	-5.5
Oil	22.1	14.1	14.0	10.5	8.6	6.3	6.0	4.0
Non-oil	-16.0	-8.0	-13.7	-9.8	-11.4	-11.0	-10.6	-9.5
Capital account	-5.2	-7.9	-7.0	-4.6	-0.2	1.5	0.8	0.6
Overall balance	0.9	-2.0	-6.7	-4.0	-3.1	-3.2	-3.8	-4.9
Gross official reserves (in billions of CFA francs)	100.9	136.5	9.9	90.1	63.2	128.8	176.6	200.5
In months of imports	1.7	2.9	0.2	1.6	1.0	2.1	2.9	3.3
World oil price (U.S. dollars/barrel)	26.5	28.2	24.3	25.2	27.2	25.5	22.0	21.0
National oil price (U.S. dollars/barrel)	25.6	27.2	22.6	24.2	26.1	24.4	20.8	19.7
Oil production (in millions of tons)	13.5	13.6	13.0	12.6	12.3	11.8	10.3	8.8
GDP (in billions of CFA francs)	3,393.3	3,618.3	3,448.5	3,448.9	3,257.8	3,312.4	3,265.0	3,225.0
Exchange rate CFA francs per U.S. dollar (average)	699.2	710.0	732.4	695.4	...	...	...	...

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

1/ Import series revised to convert historical figures from c.i.f to f.o.b. basis.

2/ Reschedulable end-2003 arrears (CFAP 340 billion) and 2004 current maturities (CFAP 158 billion) are expected to be rescheduled in 2004.

Table 5. Gabon: Monetary Survey, 2000-04

	2000	2001	2002 Est.	2003 Jun. Prel. Est.	2003 Projections	2004
(In billions of CFA francs)						
Stocks						
Net foreign assets	177.2	-8.1	36.1	58.3	20.4	98.4
Central bank	72.8	-46.0	46.0	36.1	30.3	108.4
Assets	136.5	9.9	90.1	75.7	63.2	128.8
Liabilities	-63.7	-56.0	-44.1	-39.6	-32.8	-20.5
Deposit money banks	104.4	37.9	-9.9	22.2	-9.9	-9.9
Assets	169.0	98.5	72.5	88.9	72.5	72.5
Liabilities	-64.6	-60.6	-82.5	-66.7	-82.5	-82.5
Net domestic assets	350.1	574.8	562.9	537.0	586.8	553.5
Net domestic credit	455.6	660.2	649.8	649.3	699.1	665.8
Net credit to the public sector	98.6	241.0	194.2	187.0	201.3	108.4
Net credit to the government	128.9	273.6	222.3	217.8	229.4	136.4
Central bank	114.2	223.6	130.7	167.3	151.2	71.9
Claims	157.3	248.2	231.5	214.4	201.9	178.2
<i>Of which</i>						
Statutory advances	94.5	192.6	189.2	177.6	171.0	159.6
Use of IMF credit	62.8	55.6	42.2	35.6	31.0	18.6
Deposits	43.2	24.6	100.8	50.5	50.7	106.4
Deposit money banks	10.9	47.7	89.1	49.0	75.7	62.0
Post office savings	3.9	2.3	2.5	1.5	2.5	2.5
Claims on public agencies, net	-30.3	-32.6	-28.0	-30.9	-28.0	-28.0
Credit to the economy	356.9	419.2	455.6	462.4	497.7	557.5
Other items, net	-105.4	-85.4	-86.9	-112.3	-112.3	-112.3
Broad money	527.3	566.7	599.0	595.3	607.2	652.0
Currency outside banks	116.2	128.2	132.0	117.2	133.8	143.7
Demand deposits	204.3	204.0	214.7	225.2	217.6	233.6
Time deposits	206.9	234.5	252.3	253.0	255.8	274.6
(Changes in percent of beginning-of-period broad money)						
Net foreign assets	49.5	-35.1	7.8	3.7	-2.6	12.9
Net domestic assets	-31.5	42.6	-2.1	-4.3	4.0	-5.5
Net domestic credit	-33.7	38.8	-1.8	-0.1	8.2	-5.5
Net credit to the government	-39.3	27.4	-9.1	-0.7	1.2	-15.3
Credit to the economy	8.3	11.8	6.4	1.1	7.0	9.8
Broad money	18.0	7.5	5.7	-0.6	1.4	7.4
(Annual percent changes, unless otherwise indicated)						
Credit to the economy	11.7	17.4	8.7	6.1	9.3	12.0
Broad money	18.0	7.5	5.7	-2.1	1.4	7.4
<i>Of which:</i> currency outside of banks	10.4	10.3	3.0	-6.1	1.4	7.4
Memorandum items:						
Velocity						
Non-oil GDP	3.5	3.5	3.1	...	3.4	3.4
Total GDP	6.9	6.1	5.8	...	5.4	5.1
Non-oil GDP growth	5.1	7.6	0.4	...	3.9	5.1
Total GDP growth	26.0	-4.7	0.0	...	-5.5	1.7
Credit to the economy/non-oil GDP	19.2	21.0	22.7	...	23.9	25.4

Source: Bank of Central African States (BEAC).

Table 6. Gabon: External Debt Outstanding and Scheduled Debt Service, 2000–06 1/

	2000	2001	2002	2003	2004	2005	2006
			Prel. Est.	Projections			
(In billions of CFA francs)							
Total medium- and long-term debt outstanding	2,301.5	2,192.5	2,159.9	2,061.4	2,103.1	2,110.9	2,133.7
<i>Of which</i>							
Current debt outstanding	2,301.5	2,192.5	2,159.9	2,029.0	1,456.8	1,237.7	1,028.8
<i>Of which: arrears 2/</i>	0.0	61.2	278.1	352.3	0.0	0.0	0.0
Multilateral	382.4	322.7	295.9	248.5	202.2	154.8	117.9
<i>Of which: IMF</i>	64.0	55.6	44.6	31.0	18.6	5.2	1.2
AfDB	235.2	196.8	174.0	151.9	129.7	107.2	30.7
IBRD	55.2	45.3	40.0	33.1	27.3	22.5	6.2
Paris Club creditors	1,834.9	1,798.5	1,807.0	1,717.2	1,216.4	1,048.3	880.1
Other official creditors	43.3	38.6	34.2	32.3	28.8	25.2	21.4
Commercial banks	41.0	32.6	22.9	30.9	9.3	9.3	9.3
New debt (includes residual gap filling)	...	...	...	32.5	646.3	873.2	1,105.0
Total debt service due (including IMF)	436.1	589.3	373.6	310.5	360.0	337.6	324.2
Principal	249.0	317.9	252.7	199.6	221.2	220.2	208.9
Interest	187.0	271.5	120.9	110.9	138.8	117.4	115.3
Multilateral (including the Fund)	75.3	99.6	64.2	61.0	65.0	63.9	49.6
<i>Of which: IMF</i>	9.7	10.9	12.3	8.8	14.5	15.1	4.3
Bilateral	345.3	474.9	287.0	239.1	290.4	273.6	274.1
Paris Club pre-cutoff	233.1	347.7	173.3	166.0	187.0	193.0	196.9
Never rescheduled	6.4	7.3	1.9	1.8	1.7	1.6	0.8
Paris Club II (1987)	5.7	5.7	0.0	0.0	0.0	0.0	0.0
Paris Club III (1988)	5.9	5.7	0.0	0.0	0.0	0.0	0.0
Paris Club IV (1989)	56.0	32.1	0.0	0.0	0.0	0.0	0.0
Paris Club V (1994)	88.5	100.0	91.4	90.3	93.6	95.8	96.1
Paris Club VI (1995)	63.1	152.8	52.8	52.5	54.0	55.2	56.4
Paris Club VII (2000) 3/	7.5	44.1	27.2	21.5	37.7	40.4	43.6
Paris Club post-cutoff	65.6	72.7	48.4	46.6	79.1	62.8	63.7
Nonguaranteed credit	18.4	49.7	59.4	24.1	20.1	13.7	9.2
Non-Paris Club creditors	5.6	4.9	6.0	2.4	4.1	4.1	4.3
Interest on arrears	22.6	0.0	0.0	0.0	0.0	0.0	0.0
Provision for exchange rate losses	0.0	0.0	0.0	0.0	0.0	0.1	0.5
Commercial banks	15.4	15.5	10.5	10.4	4.6	0.0	0.0
Debt service due on new debt	...	...	...	0.7	38.8	28.9	39.3
Principal	...	...	...	0.0	0.0	0.0	0.0
Interest	...	...	...	0.7	38.8	28.9	39.3
Debt cancellation	17.0	17.0	11.9	8.0	6.0	0.0	0.0
Principal	8.2	8.3	11.3	0.0	0.0	0.0	0.0
Interest	8.8	8.7	0.6	0.0	0.0	0.0	0.0
Arrears	0.0	0.0	0.0	8.0	6.0	0.0	0.0
Change in arrears (=-reduction)	-472.8	61.2	216.9	74.2	-352.3	0.0	0.0
Principal	-271.6	35.0	135.8	39.2	-210.1	0.0	0.0
Interest	-201.3	26.2	81.1	35.0	-142.2	0.0	0.0
Debt rescheduling/deferral	649.5	29.4	0.0	2.0	...	...	...
Debt service rescheduling	0.0	0.0	0.0	0.0	...	...	...
Principal	0.0	0.0	0.0	0.0	...	...	...
Interest	0.0	0.0	0.0	0.0	...	...	...
Arrears rescheduling 3/	399.9	29.4	0.0	0.0	...	...	...
Principal	250.8	25.1	0.0	0.0	...	...	...
Interest	149.1	4.3	0.0	0.0	...	...	...
Deferred payments	249.7	0.0	0.0	2.0	...	...	...
Principal	105.8	0.0	0.0	2.0	...	...	...
Interest	143.9	0.0	0.0	0.0	...	...	...

Table 6. Gabon: External Debt Outstanding and Scheduled Debt Service, 2000–06 1/

	2000	2001	2002	2003	2004	2005	2006
			Prel. est.	Projections			
(In billions of CFA francs)							
Debt service paid (including IMF)	242.4	481.7	144.8	234.3	...	...	...
Principal	155.9	249.4	105.6	158.4	...	...	...
Interest	86.5	232.3	39.2	75.9	...	...	...
Memorandum items: (In percent)							
External public debt/GDP							
Including IMF	63.6	63.6	62.6	63.3	63.5	64.7	66.2
Excluding IMF	61.8	62.0	61.3	62.3	62.9	64.5	66.1
External public debt/exports 4/							
Including IMF	95.0	107.7	108.1	111.4	115.3	134.2	148.5
Excluding IMF	92.4	104.9	105.8	109.7	114.3	133.9	148.4
Debt-service ratio 4/							
Due (before relief)	18.0	28.9	18.7	16.8	19.7	21.5	22.6
Principal	10.3	15.6	12.6	10.8	12.1	14.0	14.5
Interest	7.7	13.3	6.0	6.0	7.6	7.5	8.0
Paid	10.0	23.7	7.2	12.7	...	...	...
Principal	6.4	12.2	5.3	8.6	...	...	...
Interest	3.6	11.4	2.0	4.1	...	...	...
Debt service/government revenue 5/							
Due (before relief)	36.1	50.2	34.3	30.1	37.6	36.2	37.2
Paid	20.1	41.0	13.3	22.7	...	...	...
Debt service/non-oil GDP							
Due (before relief)	23.5	29.5	18.6	14.9	16.4	14.6	13.2
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-June 2003, all arrears to multilateral creditors were cleared as well as arrears to Paris Club creditors on post-cutoff-date debt and on the last rescheduling (2000).

3/ In 2001: rescheduling of nonguaranteed credit to France and Korea.

4/ In percent of exports of goods and services.

5/ Government revenue, excluding grants.

Table 7. Gabon: Income and Social Indicators, 1980–2000

	Latest Single Year		Same Region/Income Group 2/	
	1980–89	1990–2000	Sub-Saharan Africa	Upper-middle income
Population				
Total population, midyear (millions)	0.9	1.2	659	647
Growth rate (annual average, in percent)	3.1	2.5	2.6	1.3
Urban population (in percent of population)	66.2	81.4	34.4	75.9
Total fertility rate (births per woman)	5	4.2	5.2	2.4
Poverty (in percent of population)				
National head count index 1/	...	23.0	...	...
Income				
GNP per capita (U.S. dollars)	4,670	3,190	470	4,640
Consumer price index (1995=100)	77.45	104.68	133	138
Food price index (1995=100)	75.54	109	...	...
Social indicators				
Public expenditure (in percent of GDP)				
Health	...	2.1	2.4	2.9
Education	5.4	3.3	3.6	4.2
Gross school enrollment rates (in percent of age group)				
Primary	172	144	86	125
Secondary	43	60	...	91
Tertiary	6	8	...	26
Access to safe water (in percent of population)				
Total	58	70	55	87
Urban	75	73	82	92
Rural	34	55	41	70
Immunization rate (in percent of children under 12 months)				
Measles	76	55	53	92
DPT	78	37	46	88
Life expectancy at birth (years)				
Total	51	53	47	70
Male	49	51	46	67
Female	53	54	47	73
Mortality				
Infant (per 1,000 live births)	112	58	91	28
Under 5 (per 1,000 live births)	194	89	162	35
Adult (15–59)				
Male (per 1,000 population)	474	391	504	224
Female (per 1,000 population)	387	348	459	136
Maternal (per 100,000 live births)	600	620	...	...

Source: World Bank, *World Development Indicators*, 2002.

1/ Poverty data from the World Bank, "The Gabonese Republic: Poverty in a Rent-Based Economy," 1997.
2/ Latest single year (1990–2000).

Libreville, October 20, 2003

Mr. Horst Köhler
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Köhler:

1. The government of Gabon is determined to strengthen its adjustment program, with a view to diversifying its economy, accelerating growth, and reducing poverty. In light of the weaknesses noted in implementing the adjustment program under the Stand-By Arrangement adopted by the Executive Board on October 23, 2000, the government has focused since 2002 on enhancing fiscal management and building institutional capacity for program implementation. The government also made great efforts to improve governance, restructure public enterprises, and promote private sector development. A comprehensive program for 2003-06 was prepared in consultation with Fund staff in early 2003, including quantitative quarterly targets for 2003 and structural indicators. The attached memorandum of economic and financial policies presents the medium term objectives and policies for 2003-06, including the main objectives of the budget for 2004 which will be submitted shortly to Parliament, and the detailed objectives for the period September-December 2003, including structural reforms, which constitute a staff-monitored program. We hope that the successful implementation of the staff-monitored program will lead to a program for 2004 that can be supported by the use of Fund resources.

2. The government believes that the policies and measures described in the attached memorandum are sufficient to attain the 2003 program objectives, but we will take any further measures that may become appropriate for this purpose. We will remain in close consultation with Fund staff on the adoption of these measures, and in advance of revisions to the policies contained in the MEFP. The government will provide the Fund staff with all information that it requests to assess the implementation of the staff monitored program.

Very truly yours,

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

Attachments: Memorandum of economic and financial policies
Technical memorandum of Understanding

Memorandum of Economic and Financial Policies

I. INTRODUCTION

1. Owing mainly to the drop in oil production, Gabon's economy continues to face major challenges, including the need to diversify the economy more rapidly and to reduce poverty. In view of the weaknesses in the implementation of previous adjustment programs, the authorities have focused since 2002 on strengthening budgetary management and program monitoring to ensure that their long-term efforts are underpinned by a solid foundation. Thus, 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 also adopted for 2003.

2. After a brief review of economic performance since the adoption of the last Stand-By Arrangement in October 2000, this memorandum sets out the main economic and social objectives of the government's program for the period 2003-06, the detailed elements of the program for 2003 that is being implemented since the beginning of the year, and the budgetary objectives for 2004. The memorandum also presents in detail the policies and objectives for the period September-December 2003, which constitute a staff-monitored program; the quantitative benchmarks for end-September and end-December 2003, the structural benchmarks for this period, and the prior actions, are presented in attached Tables 1 and 2.

II. Recent Economic Developments

3. Economic and financial performance in the period 2000-02 was mixed. After the recession in 1999—when total real GDP declined by 9 percent and non-oil GDP fell by 10.5 percent, oil revenue fell by 26 percent, and the external current account deficit reached 6 percent of GDP—the economic and financial situation improved in 2000. Non-oil real GDP grew by 2 percent; the fiscal situation improved, owing to larger revenue collections (about 50 percent higher than in 1999) and reduced primary spending (2 percent lower); the external current account recorded a surplus of some 6 percent of GDP; and Gabon's contribution to the international reserve position of the regional central bank (BEAC) was positive (equivalent to about 3.5 percentage points of GDP). In 2001, non-oil GDP rose by 5 percent, but the easing of fiscal policy in the second half of the year led to a deterioration in government finances. The two initial reviews of the program supported by the Stand-By Arrangement were completed with a delay, on July 13, 2001, and the other reviews could not be completed. The fiscal situation worsened significantly, as indicated by the decline in the primary surplus from 17.5 percent of GDP in 2000 to 12 percent in 2001.¹ The external

¹ End-2001 fiscal data were revised in mid-2002 to reflect extrabudgetary expenditures, amounting to about 4 percent of GDP; they were related to election expenditures and were identified only after the conclusion of the 2001 Article IV conclusion.

current account deteriorated by about 6 percentage points of GDP, and Gabon's foreign asset contribution to the BEAC was negative by CFAF 119 billion, or 3.5 percent of GDP.

4. In 2002, the macroeconomic situation was characterized by a 1.4 percent contraction in oil-GDP, while non-oil GDP grew modestly (by 0.6 percent, based on provisional figures), associated with an expansion of credit to the economy and a sizable increase in non-oil imports. Inflation, as measured by the consumer price index (CPI), remained quite low (0.5 percent year-on-year at end-2002). The non-oil current account deficit was reduced significantly, from 13.7 percent of GDP in 2001 to about 10 percent in 2002, as interest payments on the external debt fell as a result of the December 2000 Paris Club rescheduling agreement. Nevertheless, because of the continued reduction in the volume of oil exports, the current account balance improved by only 0.4 percentage point of GDP to 0.7 percent of GDP.

5. On the fiscal side, non-oil budgetary revenue increased substantially, from the equivalent of 12.2 percent of GDP in 2001 to 13.9 percent of GDP in 2002, on account of the significant effort to collect value-added tax (VAT) and income tax arrears, and the large increase in personal income tax receipts; the latter benefited from the widespread use of the tax withholding procedure on business payments to individual enterprises and service providers, and to more rigorous collection efforts. At the same time, primary expenditures increased by 1.7 percent of GDP to 23.7 percent of GDP in 2002, owing to the overrun on outlays related to sovereignty and security funds (1.2 percent of GDP) and the restructuring costs of public enterprises (2 percent of GDP). The former was due in part to Gabon's contribution to the resolution of the acute regional political crises. Restructuring costs include the assumption by the government of Air Gabon's debt to its suppliers—in the context of its restructuring—and the debt of the public enterprises to the National Social Security Fund (CNSS).² The primary budget surplus was equivalent to 7.9 percent of GDP in 2002, compared with a budget target of 9.5 percent, and substantial arrears (CFAF 280 billion) were accumulated on external debt.

6. In 2002, the government's net position vis-à-vis the banking system strengthened, and Gabon's contribution to the BEAC's international reserves rose by CFAF 92 billion (about 3 percent of GDP). Credit to the economy and broad money increased substantially, at annual rates of 8.7 percent and 5.7 percent, respectively. The banking system remained sound. Data from the regional banking commission (COBAC) show that all banks respected the prudential standards, although two banks were only slightly over the minimum liquidity ratio.

7. Structural reform efforts since 2002 have aimed at strengthening the government's management capacity. To that end, (i) laws to combat illicit enrichment were passed by parliament in 2002 and promulgated on May 7, 2003, all the members of the National Commission to Combat Illicit Enrichment were appointed in June 2003, and adequate

² The decision to assume the arrears of Air Gabon and the arrears of a number of public enterprises to the National Social Security Fund (CNSS) was taken in 2001 and implemented in early 2002.

budgetary resources for its operations have been appropriated; (ii) financial audits of oil companies initiated in 2001 and conducted by an international auditing company were completed in September 2002, and an action plan to implement the resulting recommendations is being carried out³; (iii) in the area of public expenditures, the new procurement code was adopted in December 2002, a new procurement commission has been established, and a General Director of Public Procurement was appointed in June; and (iv) the budgetary execution integrated information system (SII), formerly called CRYSTAL, was reactivated in early 2003. This system, which includes coverage of outlays of sovereignty and security funds, uses an interface with the treasury systems (which also covers the special funds) to track all stages of expenditure execution (commitment, control of services rendered, payment order, and payment).

8. In the fiscal area, a number of important measures have been taken, including: (i) the creation of a strengthened General Directorate of Taxes, which includes a large taxpayer unit; (ii) measures to reduce 2003 spending in connection with the security and sovereignty funds (presidential instruction) and the special funds (official decision by the Minister of Finance); (iii) the adoption in June 2003 of a plan of actions to eliminate customs and domestic tax exonerations; (iv) the adoption in August 2003 of a decree which reduces the number of advisors at the presidency, political institutions, and the ministries; the decree became effective in September; and (v) the inclusion in the regular budget execution process of capital expenditure related to the independence celebrations (*fêtes tournantes*), which represents almost 1.5 percent of GDP. Moreover, progress has been made in reforming the budget classification system, so that the 2004 budget will be based on the new system. In addition, to promoting private sector development, a one-stop center to simplify procedures for setting up new businesses became operational in November 2002.

III. GOVERNMENT PROGRAM FOR 2003–06

A. Main Challenges and Medium-Term Strategy

9. The country faces major challenges in four key areas: (i) the continued decline in oil production (representing approximately one-third of GDP), which fell from 18.5 million tons in 1997 to 12.6 million tons in 2002, and, barring the discovery of new fields, is expected to be halved over the next five years; (ii) heavy external debt service, representing almost 40 percent of fiscal revenue over the next few years—given the downward trend in oil revenue, the debt-service ratio will remain virtually unchanged in the medium term, despite the projected decline in debt service in nominal terms; (iii) a relatively high domestic cost structure that hampers competitiveness; and (iv) social indicators comparable to those of low-income countries, even though Gabon is classified as a middle-income country. While extreme poverty⁴ has been reduced significantly during the past four decades, more than

³ Tax audits which were recommended for two oil companies have been carried out; negotiations with the relevant oil companies on the phase III of the exploitation of the Rabi field—another recommendation of the report--were completed in May 2003.

⁴ Extreme poverty is defined as two-thirds of average consumption.

60 percent of the population lives below the poverty line, and access to basic social services remains limited for a large segment of the population, particularly in rural areas.

10. The government is determined to confront these challenges by pursuing and intensifying its fiscal adjustment efforts and structural reforms, including actions to improve competitiveness, so as to diversify the economy, achieve a sustained growth rate, and thereby reduce poverty on a lasting basis. Regarding fiscal adjustment, the government plans to strengthen collection of non-oil revenue and reduce nonpriority current expenditure in order to free up sufficient resources for investment in the social and economic infrastructure, and to regularize relations with foreign and domestic creditors. As described in the recently approved Law on Territorial Development and Planning, the country has significant economic potential, especially in wood processing, tourism, fisheries, and agro-industry. Structural reforms will focus on ensuring good governance and transparency, restructuring and privatize public enterprises, reducing the cost structure in the economy, and removing the barriers to private sector development—for instance, by improving the legal and regulatory framework. Despite the adjustment efforts and structural reforms, Gabon will continue to face large financing requirements and is seeking increased support from the international community, particularly in the form of substantial external debt relief.

B. Medium-Term Objectives

11. The government aims to achieve non-oil GDP growth of 2.4 percent in 2003 and 4 percent per annum in 2004–06, fueled by higher foreign investment and an improvement in the business climate. With the projected decline in oil GDP, total real GDP is expected to grow by only 1.0 percent on average in 2003–06. Although non-oil private sector savings and investment are expected to grow, total national savings is projected to decline by about 4 percentage points of GDP because of the fall in the oil surplus; the overall investment rate should stabilize at about 21 percent of GDP during the program period. The average annual inflation rate is to be contained to 2 percent, owing to implementation of a prudent fiscal policy. The projected decline in oil production from 12.6 million tons in 2002 to 8.8 million in 2006 is expected to bring about a shift in the current account balance from a surplus of 0.7 percent of GDP in 2002 to a deficit of 5.5 percent in 2006; the non-oil current account deficit, after widening from 9.8 percent of GDP in 2002 to 11.6 percent in 2003, would gradually narrow thereafter as non-oil exports pick up.

C. Macroeconomic Policies

Fiscal policy

12. Given the continued decline in oil production, fiscal consolidation will require an even greater mobilization of non-oil budgetary revenue and prudence in managing oil revenue. In addition, the government will establish clear spending priorities and a more rigorous control of the wage bill, and will reduce nonpriority current expenditure. The government will enhance its capacity to formulate and execute the public investment program, which will have to be aligned with the poverty reduction strategy. The interim

poverty reduction strategy paper (I-PRSP) was adopted by the government in June 2003 as stipulated in the Law on Territorial Development and Planning, and the government expects to complete the final PRSP by end-June 2004. The process of evaluating the cost of the sectoral action programs is under way. These costs will be reflected in the 2004–06 three-year rolling investment program, which will be in line with the priorities set in the PRSP. With the help of donors, the government will conduct annual reviews to ensure that the capital budget is executed efficiently, in accordance with the development priorities.

13. Fiscal revenues are projected to decline from the equivalent of 31.5 percent of GDP in 2002 to about 27 percent in 2006, as the reduction in oil revenue will be offset only partially by the increase in non-oil budgetary receipts; the latter are expected to increase from 14 percent of GDP in 2002 to about 18 percent in 2006. Thus, by 2006 non-oil revenue would represent two-thirds of total revenue, as against 44 percent in 2002. This objective is to be achieved through the full effect of the wide-ranging revenue-enhancing measures implemented in 2002 and 2003 (see paras. 15-17), and through the impact over the medium term of the strengthening of tax administration. The adjustment program will also require a large effort to reduce expenditures. Thus, the government aims at reducing primary current expenditure from 19.7 percent of GDP in 2002 to 16 percent in 2006; the decline is even larger as a share of non-oil GDP, from 33.7 percent in 2002 to 20.8 percent in 2006. Capital expenditure would stabilize at about 5 percent of GDP during 2003-06. The cut in current expenditure as a share of GDP will come from (i) a progressive reduction of the wage bill in nominal terms, as recruitment in the social sectors will be offset by a reform in the system of allowance (see para. 32), strict observance of retirement regulations, reform of the promotion system, and a reduction in the number of advisors in the offices of the President, the Prime Minister, ministers and other government bodies, as discussed below; and (ii) the containment of expenditure on goods and services and transfers, as a result of a cut in sovereignty expenditure, rigorous management of public service consumption, and the phasing out of transfers to public enterprises following their privatization. Given the decline in domestic debt service in 2004–06, the financing gap is projected to be about 9 percent of GDP on average during this period, and could be covered by external debt rescheduling and assistance from multilateral institutions, including the Fund.

Fiscal policy in 2003

14. The key fiscal policy target for 2003 is to achieve a primary surplus of 10.9 percent of GDP. Given the decline in oil revenue of 1.5 percentage points of GDP projected for 2003, this fiscal target implies an adjustment in the non-oil primary deficit of some 8½ percentage points of non-oil GDP (from 16.8 percent of non-oil GDP in 2002 to 8.2 percent in 2003). Such an adjustment, along with the use of a part of the windfall oil revenue realized in 2002, will allow the repayment of a large part of arrears to external creditors, to pay all arrears on domestic debt, and to reduce the treasury float (*instance de paiements*) to less than three months of nonwage primary expenditure.

15. Given the volatility of world oil prices, oil revenue projections for 2003 are prudent, based on an average Brent oil price of US\$27.2 per barrel in 2003 and a production of

12.3 million tons; oil revenue are projected to reach CFAF 527 billion in 2003, equivalent to 16.2 percent of GDP. Any surplus over oil revenue projections will be deposited in the Fund for Future Generations (FFG).

16. Non-oil revenue is targeted to increase from 13.9 percent of GDP in 2002 to 15.5 percent in 2003. These projections are based on the full effect of the tax measures adopted in the 2002 Budget Law and the 2002 Supplementary Budget Law, as well as the administrative measures taken to improve tax collection. The tax measures include an increase in beverage and tobacco excise rates, and a decrease in the rebates applicable to the taxable base; the reduction of VAT thresholds by about 30 percent; increases in the area tax (*taxe de superficie*) and stumpage fees (*taxe d'abattage*) in the forestry sector; and a rise in the domestic consumption tax on fuel. The administrative measures include the introduction of reference prices as a base for the export tax on logs (adopted in June 2003) and the strengthening of customs procedures by implementing UNCTAD's automated system for customs data (ASYCUDA), in effect since June 2003; a stepping up of personal income tax audits with the help of the mobile audit team established in 2001; tax audits of 35 large enterprises; a follow-up on the results of the tax audit of COMILOG (the manganese company); and increased efforts to collect tax arrears and follow up with delinquent taxpayers.

17. The government is continuing the reforms needed to eliminate distortions in the current tax system. In particular, based on a recently completed comprehensive survey of tax exemptions, the government has adopted in June 2003 a plan of action to eliminate all special agreements, with the exception of those granted under the mining sector and forestry code or provided under the investment charter or Vienna Convention. In this connection, exemptions granted to a number of construction companies and agribusinesses were eliminated in June 2003. No new exemptions will be granted and the existing exemptions will not be renewed (structural benchmark). The principle that all government procurement must be on an all-taxes-included basis will be rigorously applied. For the manganese sector, the taxable base for the export tax, which is grossly undervalued, will be readjusted. Moreover, measures will be introduced in 2004 to replace the VAT exemptions for investments in specific sectors by a system of deferred VAT payments on imports of capital goods; to this end, the government has requested the assistance of the IMF's Fiscal Affairs Department. The government is in the process of strengthening the recruitment and training of tax officers, in order to increase the frequency of detailed tax audits both of oil and non-oil companies.

18. The government is determined to ensure that the forestry taxation system provides appropriate incentives to forestry projects that guarantee sustainable development and local processing of wood, according to the main principles of the new forestry code. To that end, the budget law for 2004, to be submitted to Parliament during the month of October, has revised the area tax (*taxe de superficie*) and the stumpage fee (*taxe d'abattage*). The former has been set at CFAF 600 per hectare, with a 50 percent reduction for concessions with sustainable development plans. The stumpage fee has been set in a range of 3 to 9 percent of the reference price per cubic meter, according to production areas, with a rebate of 15 percent for exported logs and 50 percent for logs to be processed locally.

19. On the expenditure side, primary expenditure is to be reduced by 2.7 percent of GDP in 2003 to the equivalent of 20.8 percent of GDP. This adjustment effort reflects the government's commitment to reduce current expenditure, particularly subsidies and transfers and spending on goods and services, and to contain the wage bill (see para.21).

20. Spending on transfers and subsidies is targeted to decline by about CFAF 42 billion (1.3 percent of GDP) in 2003 to CFAF 116.9 billion. These savings reflect the determination expressed by the highest authorities in Gabon to reduce spending on the security and sovereignty funds, which will drop from CFAF 80 billion in 2002 to CFAF 25 billion in 2003. In this context, benefits to members of the government and official entities were reduced by more than 60 percent in 2003. Also, spending on scholarships has been contained (for example, imposing limits on the shipment of personal effects and reducing the number of scholarships for study abroad).

21. The government has continued its effort to reduce public consumption spending begun in 2002, with the aim of limiting in 2003 outlays on goods and services at CFAF 126.8 billion, a savings of CFAF 30 billion over 2002 (some 0.8 percent of GDP). The measures taken in 2002 to contain telephone usage (particularly limits on international calls and the use of mobile phones) has led to a cut in spending from CFAF 1.5 billion per month in 2002 to about CFAF 700 million per month in 2003. Similarly, as a result of investment made to eliminate fraudulent hookups and curtail losses on water leakages, spending on electricity and water is to decline from CFAF 14.8 billion in 2002 to CFAF 11.2 billion in 2003. The savings on other goods and services has come from stepped-up spending controls, in particular the reactivation of the SII and the redeployment of financial controllers in the spending ministries, which began in 2002.

22. The government has strengthened its efforts to control the wage bill, so as to reduce it from 10.9 percent of non-oil GDP in 2002 to 10.7 percent in 2003. The initial target on the wage bill (CFAF 218 billion), agreed with Fund staff early in the year, has been adjusted upwards to CFAF 223 billion, to take into account the impact of the regularization of the position of civil servants on the basis of normal advancement, as a result of the civil service census of 2001. The government has continued to rigorously control civil service staffing levels, specifically by (i) applying more strictly the rules on the age limit for retirement, and on separation from the civil service of local elected officials, (ii) limiting recruitment to the education, health, and security sectors in line with the priorities set in the I-PRSP, and (iii) reducing by more than half the number of advisory positions in the presidency, the ministries and other institutions. This latter measure, which entered into effect in September, is expected to produce savings on a full year basis of about CFAF 1.6 billion (0.7 percent of the wage bill). A number of additional measures are under preparation to contain the wage bill; they include: (i) the extension of the measure on senior advisors to special appointees at the presidency, deputy secretary generals, deputy inspector generals and inspectors of ministries, and special envoys abroad; (ii) reduction of the period in which functional indemnities are received after termination of function; (iii) the harmonization of the regime of functional indemnities, and elimination of seniority increases for such indemnities; (iv) the revision of the law concerning severance pay for contractual employees.

23. In 2003 capital expenditure will rise by 0.8 percentage points of GDP to 4.8 percent. Spending in the health and education sectors will rise from 0.5 percent of GDP in 2002 to some 0.7 percent of GDP in 2003. To improve capital budget execution, the government has begun to take administrative measures to ensure that (i) the capital budget enters into effect at the beginning of the fiscal year, and the function of appropriations manager is assigned to well-trained officials, in order to avoid breakdowns in the expenditure commitment procedures; (ii) public expenditure approval and control procedures are made more efficient; (iii) new procurement procedures are rigorously followed to avoid overvaluation and to improve the transparency of tenders; and (iv) only projects included in the budget are implemented. Moreover, to allow for better tracking of the capital budget, the General Planning Office will prepare quarterly reports on financial and physical execution, starting in the last quarter of 2003 (structural benchmark).

24. The government is determined to enhance the effectiveness and transparency of budgetary management. The reforms underway include (i) enhanced use of the reactivated SII; (ii) preparation of monthly balances for the treasury with delays not exceeding two months, and establishment of a single database that covers both expenditure and treasury accounting procedures; (iii) finalization of the new budget classification system (economic, administrative, and functional classifications) by end-2003 (structural benchmark); (iv) inclusion of expenditure relating to the Road Maintenance Fund (FER) in the government budget, starting with the 2004 budget (structural benchmark); and (v) the rigorous monitoring on a monthly basis of the use of special fund resources in the context of regular budget execution, and inclusion of these special funds in the 2005 government budget. The budget execution laws will be submitted to the Audit Court within the statutory deadlines. Moreover, with external assistance, the government plans to introduce a medium-term budget framework and an expenditure programming system with specific targets and increased accountability of managers; both should be operational, starting with the 2005 budget.

Budgetary outcome for the period January-August 2003 and prospects through end-year

25. The budgetary execution during the first half of 2003 was in line with targets established at the beginning of the year in consultation with Fund staff. Owing to a shortfall in customs revenue, due to weak imports, non-oil revenues fell short of the target by CFAF 15 billion; this has been offset by lower-than-targeted current and capital expenditure, despite a small overrun in the wage bill; thus, the non-oil primary deficit was in line with the target. Because domestic arrear reduction (mainly float at the Treasury) exceeded substantially the target, the target for the government position toward the banking system, adjusted for the excess in oil revenue, was not met. During the first half of 2003, arrears on debt to multilateral organizations, on post-cutoff-date bilateral debt, and on bilateral debt obligations from the last Paris Club rescheduling were fully repaid. In the period July-mid-September customs revenue improved, while expenditures remained in line with agreed targets. Non-reschedulable debt service continued to be paid in a timely manner.

26. The authorities will continue to monitor carefully the performance on non-oil revenue in the last part of the year, and will stand ready to contain expenditure commitment to ensure that the non-oil primary deficit target for the full year 2003 is met. The reduction of domestic arrears will be kept within the annual target, so as to contain the recourse to bank financing within the agreed limits (see attached Table 1). The limit on bank financing to the government through end-December 2003 has been raised from the level established early in the year, to reflect postponement of budgetary assistance by the African Development Bank to 2004. To cover the financing need, the government is in the process of negotiating the deferral to 2004 of certain obligations on domestic debt and on non-guaranteed suppliers' credits. With the postponement of a meeting of Paris Club creditors, originally expected to take place in the last quarter of 2003, arrears will continue to be accumulated towards bilateral creditors on reschedulable debt.

Budgetary targets for 2004

27. In line with the medium term objectives, the draft budget law for 2004, to be submitted to Parliament shortly, aims at reducing further the non-oil primary deficit to 6.9 percent of non-oil GDP, from 8.2 percent in 2003. Oil revenue is projected to decline to CFAF 431 billion (13 percent of GDP), based on an assumption of an average Brent oil price of US\$ 25.5 per barrel, and a production of 11.8 million tons. Consistent with the statutes of the FFG, an amount equivalent to 10 percent of projected oil revenues will be deposited in the account of the FFG. Non-oil revenue is targeted to reach 15.9 percent of GDP, up from 15.5 percent in 2003, based on a further strengthening of tax administration, including curtailing exemptions and the effective implementation of the new tax provisions concerning the forestry sector. Primary expenditure is targeted to decline to 20.7 percent of GDP, with a further effort to contain the wage bill, so as to free resources for priority sectors, such as health. Capital outlays will remain at about 5 percent of GDP; the public investment program will give priority to roads, the health sector, security, and the judicial system.

Monetary policy

28. Regional monetary policy will continue to be pursued in a manner consistent with the fixed exchange rate regime. The money supply for Gabon is projected to grow by 6½ percent on average during the 2003–06 period, in line with nominal non-oil GDP growth. Net foreign assets are expected to increase, primarily owing to anticipated foreign direct investment, especially in the context of the privatizations. Fiscal consolidation during 2003–06 will reduce the need for bank lending to the government and will allow for an expansion in bank credit to the private sector of about 10 percent per year, in line with the projected nominal GDP growth of the non-oil sector. Given the low level of inflation, the central bank will have a margin for reducing nominal interest rates while maintaining a positive real differential with the euro area.

29. In the first half of 2003 broad money was stable, as the forestry sector reduced its indebtedness toward the banking system, and net credit to government declined; this was offset by a significant increase in net foreign assets of the banking system. In the second half

of the year broad money is projected to increase by about 2 percent, reflecting some acceleration in credit to the economy. The government expects to draw on its deposits in the banking system, and net foreign assets are projected to decline, because of heavy debt service obligations falling due.

Reform of the financial sector

30. The deepening of the financial sector and the maintenance of its soundness are essential components of the government medium-term program. The Financial Sector Assessment Program (FSAP) identified the main structural weaknesses and risks in the Gabonese financial sector as (i) a lack of 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 increased the number of inspectors in recent months, and inspections will focus more on risk diversification. When necessary, COBAC will recommend further increases in the capital of the banks. In the area of microfinance, a Central African Economic Monetary Community (CEMAC) regulation establishing operating conditions for microfinance organizations 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. A CEMAC regulation on money laundering and combating the financing of terrorism was recently adopted, and a national financial intelligence unit 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 auditing system is also being strengthened. Measures have also been taken to modernize the interbank settlements system in the context of the CEMAC.

31. The Central African Stock Exchange (BVMAC) is being created, and its capital is being paid in. The stock exchange will support the mobilization of savings and the financing of private sector investment. It should become operational in 2004.

Foreign trade

32. In the area of 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 all import surcharges by end-2004.⁵ The surcharges on lubricants and mineral water will be eliminated by end-December 2003 (structural benchmark). The quantitative restrictions on sugar imports will be eliminated by end-June 2004 at the latest, when the government's obligation to the buyers of the recently privatized company expires.

⁵ As of January 1, 2003, the surcharges were applicable to edible fats and oils, soap, poultry products, mineral water, cigarettes, and industrial lubricants.

33. Concerning the forestry sector, the government has commissioned a study of forestry exports to clarify the respective roles of the national log marketing company (SNBG) and private operators, in order to ensure maximum efficiency in the exporting of logs. Discussions with private operators in the forestry sector are already under way, with a view to improving the marketing of logs; the price paid at the point of export (*prix plage*) will be adjusted regularly to reflect international prices. A plan of actions for the restructuring of SNBG will be adopted before end- 2003 (structural benchmark), and will constitute a component of the forestry and environmental project under preparation with World Bank assistance.

D. Structural Reforms and Poverty Reduction

34. Comprehensive structural reforms are necessary to facilitate diversification of the economy, promote the development of the private sector, ensure good governance, and combat poverty.

Government reform

35. The government has initiated major reforms of the civil service to improve its efficiency and contain costs. These reforms include the (i) harmonization of the payroll and personnel databases; and (ii) adoption by parliament of the two laws organizing the civil service (already under discussion in parliament) and establishing the general civil service regulations (adopted by the government in August, and transmitted to parliament in September). These two laws will be supplemented by more specific personnel regulations for regular civil servants and contractual government employees. The new general civil service regulations should contribute to this effort, as they embody the principle of merit-based promotions and rationalize the benefits system by making it more rigorous. A review of the benefits granted to contractual government employees is also planned, in order to achieve greater equity among the various categories of government workers and to reflect labor market conditions. In addition, the ethics code for civil servants is under preparation and will be adopted by the government by end-2003 (structural benchmark). The preparation of the new organization charts will begin in the second half of 2003 and be completed in 2004. An important objective will be to contain costs and streamline cumbersome government structures while improving their efficiency. The computerized civil service management system (ANITA), which will ensure full consistency between the payroll and the civil service roster, will be implemented by end-July 2004.

Private sector development

36. The government recognizes that improving the business climate, promoting competition, and creating adequate infrastructure are essential to stimulate the growth of the non-oil sector. In this context, the government will give priority in the 2003-06 period to implementing the sectoral infrastructure programs that are needed to support economic development, such as (i) improvement of the road network and rehabilitation of the ports in the context of the Priority Action Program for the Urban Sector and Transport (PAPSUT);

and (ii) improvement of telecommunication services. The PAPSUT program, which is supported by foreign lenders and donors, appropriately views the rehabilitation and improved efficiency of the ports as essential to reducing factor costs and attracting high-value-added activities, such as transshipment and processing. In this context, an agreement has been signed in September 2003 with a reputable foreign port operator which will manage the main activities of the two ports of Owendo and Port Gentil under a 15-year concession. The modernization of telecommunications services (including connection to the submarine fiber-optic cable) should facilitate an expansion in economic activity. Efforts will be made to improve the operation of the one-stop center for investors, which has been in operation since end-2002. In coordination with the Foreign Investment Advisory Service (FIAS) of the International Finance Corporation (IFC), the World Bank will carry out an analysis of the impediments to investing in Gabon. The study will be completed during 2004 and will contain a specific action plan that will be implemented rapidly.

37. Significant efforts have been made in recent years to improve the functioning of the judicial system and legal environment. These efforts have included strengthening the courts, computerizing the registry of the commercial court in Libreville, and training judges and improving their working conditions. Efforts in the area of training will continue. In particular, the Uniform Acts of the Organization for the Harmonization of Business Law in Africa (OHADA), to which Gabon is a signatory, covering commercial law, corporate law, bankruptcy, and arbitration, have helped to clarify the legal context for business. Mechanisms will be established to facilitate recourse to arbitration as a means of resolving commercial disputes.

38. The list of products subject to price controls (*régime de la liberté surveillée*) will be reduced, by removing edible oils, soap, and mineral water from the list by end-2003. Moreover, the General Directorate of Price Controls will be abolished by end-December 2003 (structural benchmark). The new General Directorate of Competition and Consumption will have the task of improving the functioning of market forces and the protection of consumer rights.

Restructuring and privatization of public enterprises

39. The government is determined to give new impetus to the privatization of public enterprises that has been under way in recent years, with technical assistance from the World Bank. The privatization of Gabon Telecom, begun in April 2002, has been delayed, as the potential investors were more interested in obtaining a management contract than in taking over the company. With the assistance of the HSBC investment bank, the government has now adopted a two-stage privatization strategy: (i) a call for bids for the sale of a controlling share, coupled with a management contract, which was launched in June 2003, with the final offers to be tendered by end-March 2004; (ii) the majority of the capital will be opened subsequently, when market conditions improve.

40. The restructuring of Air Gabon began in 2000 with the assistance of the Lufthansa Consulting Company. After the substantial financial investment made by the government

in 2002, it is imperative that management performance improves quickly. The company has made a significant effort to streamline operations by restructuring the network, renegotiating leasing contracts, improving customer loyalty programs, and enhancing billing and financial management. Passenger and freight traffic increased sizably in 2002, and the restructuring measures under way should improve the company's operating results in 2003. This will be an important step toward preparing the company for privatization.

41. In the agro-industry sector, the government is determined to complete the privatization of the palm oil company (AGROGABON) and the rubber production company (HEVEGAB). A temporary administrator was appointed for AGROGABON in January 2003, with the task of rehabilitating the processing plants and plantations, redefining the company's commercial policy, and launching tenders for the privatization of the company before end-2003. At HEVEGAB, the downsizing exercise is under way, and the upturn in production is encouraging. The call for bids for privatization has been launched on September 30, 2003, thus meeting the related structural benchmark. The government has launched a restructuring program at the national timber marketing company (SNBG) that is aimed at improving its management and reducing its costs. An accounting and financial audit by an internationally recognized accounting firm is under way. The Minister of Finance will henceforth be responsible for financial oversight of the company. Finally, in order to preserve the credibility of the privatization program, the government will make sure that past privatization agreements will be respected. To that end, after the termination of the concession contract with the company Transgabonnais, which took place in May 2003, operations have been entrusted to the company SETRAG (Société d'Exploitation du Transgabonnais), for a transitory period of four months renewable once. A new concession company will be selected with the assistance of the World Bank and the African Development Bank. The government has recently agreed with the previous operator on a financial compensation scheme.

42. The government is continuing the reform of the National Social Security Fund (CNSS) with the assistance of the International Labor Office (ILO) and the World Bank. The planned short-term reforms include (i) improvement of the management of the CNSS by strengthening its decision-making procedures and accountability to business and labor; (ii) completion of the computerization of the records of all beneficiaries; and (iii) privatization of the management of the three hospitals, so as to improve the quality of care and reduce costs; to that end, tenders for their privatization were launched in July 2003. Moreover, the actuarial study of the pension system by the ILO is scheduled to be completed by end-December 2003. This study will include recommendations to return the old age pension insurance system to a sound actuarial position. The revision of the social security code will formalize the initiatives currently under way to strengthen the system.

Social policy

43. With the assistance of the United Nations Development Program (UNDP), the government has defined strategies for the sectors that contribute directly to poverty reduction, as indicated in the I-PRSP. The priorities identified include education, vocational

training, health, water, agriculture and rural development, AIDS prevention, and improvement of living conditions. In particular, the actions in the health and education sectors are based on needs revealed by the school-zone map and the National Health Action Program (PNAS). In the health sector, the priorities are as follows: (i) the 385 existing dispensaries should be fully operational; (ii) the 15 maternal and child health centers, the 52 medical centers with a surgical unit, and the 9 regional hospitals should be fully functional; (iii) immunization campaigns should be carried out according to the required standards; and (iv) inventory disruptions should be avoided in the distribution of drugs to the dispensaries and health centers. In the education sector, the priority is to reduce the teacher-pupil ratio and the dropout rate, and to ensure that there is an adequate supply of educational materials. The details on the necessary measures, implementation timetable, performance indicators, and costs of these programs will be included in the PRSP. The social indicators will be monitored by Gabon's Social Change Observatory and will be based on the 2003 survey of household expenditure currently being conducted. The social objectives to be monitored annually will be those selected as Millennium Development Goals.

Good governance

44. The government recognizes that good governance is a determining factor in promoting growth and effective social and economic policies. To ensure transparency, the National Commission Against Illicit Enrichment will publish quarterly and annual reports on its activities (particularly the number of cases investigated). The necessary budgetary resources have been placed at the disposal of the Commission. The budget for 2004 will include adequate provisions for the operations of the Commission (structural benchmark). Furthermore, the recent creation of the National Public Procurement Commission, supported by a General Directorate of Public Procurement, is an important factor in the effort to ensure transparency in the management of public resources. With regard to the declaration of assets by public officials, an IMF expert has provided technical assistance in June and July 2003; the related draft decree has been reviewed by the Anti-Corruption Commission and will be finalized before end-December 2003 (structural benchmark).

E. Program Monitoring

45. As indicated in the technical memorandum of understanding (see Annex I), the government has enhanced its ability to monitor the program closely and will report regularly to the Fund on its implementation. The implementation of the program will be monitored through quantitative benchmarks for end-September and end-December 2003, and structural benchmarks for the period September 1-December 31, 2003, presented respectively in Tables 1 and 2.

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

	2002 Dec. Est.	2003						
		Mar.		Jun.		Sep.		Dec.
		Target	Est.	Target	Est.	Prog.	Est.	Prog.
Benchmarks								
Ceiling on the net claims of the banking system on the government 2/ Adjusted target 2/	-51.5 ...	3.4 35.8	-17.2	-5.3 -31.5	-4.4	8.8 -41.3	23.8	7.1
Ceiling on the contracting or guaranteeing of new nonconcessional external debt with maturity of over 1 year by the government 3/ 4/	17.7	42.5	0.9	42.5	0.9	32.5	2.1	32.5
Ceiling on outstanding stock of new nonconcessional external debt with original maturity of one year or less owed or guaranteed by the government 3/ 4/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Limit on the accumulation of external payments arrears 5/	216.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Floor on the net reduction of domestic payments arrears (reduction "-")	-65.8	-6.3	-64.2	-30.3	-67.8	-59.9	-72.6	-80.0
Floor on the primary fiscal balance (on a payment order basis) 6/ Adjusted target 6/	272.0 ...	118.7 133.7	172.4	246.3 296.4	296.7	299.8 354.8	357.3	355.4
Indicative targets:								
Floor on non-oil government revenue	479.0	112.4	111.6	252.7	237.7	367.5	349.0	503.6
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
Ceiling on total noninterest expenditure on a payments order basis	817.9	151.2	111.0	295.4	278.9	463.2	440.9	678.7
Memorandum items:								
Nonproject external financing disbursements (excluding IMF)	1.9	0.6	0.0	1.3	0.0	1.9	0.5	3.9
External debt service due (excluding IMF)	361.2	84.7	86.9	154.0	156.7	231.1	241.7	301.7
Domestic debt service due	109.1	39.7	26.4	61.2	53.8	78.6	74.6	89.3
Oil revenue	609.0	156.9	171.8	287.8	337.8	393.7	448.7	526.6
Rescheduling of external debt 7/	0.0	46.5	0.0	77.7	0.0	125.5	0.0	156.2
Privatization proceeds	1.8	1.0	1.0	1.0	1.0	1.0	1.0	1.0

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/ 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 (CIRRs).

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

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

6/ 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).

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

Table 2. Gabon: Prior Actions, and Structural Benchmarks for the Staff Monitored Program

Measures	Implementation Period
Prior actions	
Preparation of monthly reports encompassing treasury expenditures and payment orders issued by the General Directorate of the Budget (MEFP, ¶7).	Done
Satisfactory completion of a six-month track record (January-June 2003) of overall government operations (¶25).	Targets for end-March and end-June 2003 met, with the exception of the government position vis-à-vis the banking system at end-June
Settlement of the external payments arrears outstanding as at end-December 2002 on the post-cutoff date debt and debt rescheduled under Paris Club VII, and the multilateral debt (¶25).	Done
Appointment of the members of the National Commission to Combat Illicit Enrichment and provision of adequate resources for 2003 for the functioning of the commission (¶7).	Done
Adoption of an action plan to eliminate tax exemptions under special agreements, with the exception of those relating to the mining and forestry sector, investment charter, and Vienna Convention (¶17).	Done
Structural benchmarks	
<i>Fiscal policy</i>	
Adoption by the Council of Minister of a draft budget law for 2004 based on the new budget classification system (¶24).	End-December 2003
Integration of the budget of the Road Maintenance Fund (FER) in the 2004 government budget (¶24).	End-December 2003
Preparation of a report on the execution of the investment budget in the January-September 2003 period (¶23).	End-December 2003
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 (¶17).	Continuous benchmark
<i>External Sector</i>	
Removal of the surtax on lubricants and mineral water (¶32).	End-December 2003

Table 2. Gabon: Prior Actions, and Structural Benchmarks for the Staff Monitored Program

Measures	Implementation Period
<i>Good governance</i>	
Finalization of the decree requiring a wealth declaration by public officials(¶44) .	End-December 2003
Adoption by the Council of Ministers of the draft ethics code for government officials under preparation (¶35).	End-December 2003
Inclusion in the annual government budgets, starting with 2004, of an adequate operating budget for the National Commission to Combat Illicit Enrichment (¶44).	End-December 2003
<i>Development of the private sector</i>	
Launching of call for bids for the privatization of HEVEGAB	Done on September 30, 2003
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 (¶33).	End-December 2003
Abolition of the General Directorate of Price Controls (¶38).	End-December 2003

REPUBLIC OF GABON

Technical Memorandum of Understanding

1. This memorandum spells out the understandings for the monitoring of program implementation, and the data that will have to be reported to the IMF staff for the purpose of the staff monitoring program (SMP). In this context, it defines (a) the quantitative and structural benchmarks; (b) the indicative targets; (c) the adjusters for the quantitative benchmarks; and (d) the key assumptions used in the formulation of the program for 2003 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 October 20, 2003.

A. Monitoring of Program Implementation

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

B. Quantitative Benchmarks, Indicative Targets, and Adjusters

Quantitative benchmarks, and indicative targets

3. The quantitative benchmarks are specified in Table 1 of the MEFP attached to the letter of October 20, 2003. The quantitative benchmarks 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 owed or guaranteed by the government (cumulative from January 1st);
- 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 government;
- a zero limit on the accumulation of external payments arrears (a continuous performance criterion);
- a floor on the net reduction in the domestic payments arrears of the central government (cumulative from January 1st); and
- a floor on the primary fiscal balance, on a payment order basis (cumulative from January 1st).

4. The program includes adjusters for the quantitative benchmarks as specified in paragraphs 17 and 18 below and in footnotes 2 and 7 of Table 1 of the MEFP attached to the letter of October 20, 2003.

5. The indicative targets (cumulative from January 1st), which will be instruments to monitor performance under the program, are as follows:

- a floor on government non-oil revenue;
- a ceiling on the total government wage bill, on a payments order basis; and
- a ceiling on total noninterest expenditure, on a payments order basis.

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. As of December 31, 2002, this outstanding amount was CFAF 222.3 billion, and its breakdown was as follows:

Net Claims of the Banking System on the Central Government (In billions of CFA francs)	
Statutory advances from the BEAC	187.9
Plus: CFA franc counterpart of use of Fund resources	42.2
Plus: consolidated advances	1.3
Minus: deposits at the BEAC	100.8
<i>Of which:</i> Account for Future Generations	70.4
Plus: net borrowing from the commercial banks ¹	89.1
Plus: CCP deposits	2.5
Total	222.3

7. The **Account for the Fund for Future Generations (AFFG)** at the BEAC will be fed in 2003 with oil revenues in excess of the programmed levels (based on program baseline assumptions detailed in para. 20). The **AFFG** is part of the net claims of the banking system on the government.

8. The benchmarks on nonconcessional external debt are ceilings on **new nonconcessional external debt**. The benchmark on the contracting and guaranteeing of new non-concessional debt with maturity over one year by the 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 benchmark are rescheduling arrangements and purchases from the IMF. The benchmark on the **outstanding stock of nonconcessional external debt,¹ 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**, 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 net change in domestic payments arrears of the central government** corresponds to the change since January 1st in the treasury float plus the difference between (i) the amount due on the treasury debt (interests), as well as the securitized commercial agreements and “other” debt (interest and principal);² and (ii) the amount actually paid in the period in question. The treasury float consists of the “payment orders at the treasury” and the “other treasury float.”³ The “payment orders at the treasury” corresponds to the difference between the cumulative payment orders (*ordonnancements*)⁴ and the cumulative actual

¹ 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).

² The 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 2002; (b) the debt of the treasury; (c) payroll arrears prior to 2001 (capitalized back pay); and (d) “other,” 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.

³ The “other treasury float” includes the accounts on “subsidies,” “consignments,” “accounting agencies,” and “installments to be allocated.”

⁴ As defined below in paragraph 12.

payments (checks encashed—cash basis). At end-December 2002, the government's domestic payments arrears amounted to CFAF 173.9 billion, comprising CFAF 126.0 billion in outstanding treasury float and CFAF 22.5 billion in "other treasury float," and CFAF 25.4 billion of payments arrears on the domestic debt as defined above.⁵

11. **Total government revenue** is measured on a cash basis and includes offsetting revenue and expenditure operations, including private sector tax obligations offset against 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).

12. **Total government expenditure** include spending on payment order basis (*ordonnancements*), and treasury advances (*avances non régularisées*), and outlays on special funds. The indicative target on total noninterest expenditure is calculated on the basis of this definition.

13. **The primary fiscal surplus**, on a payment order basis (*ordonnancements*), is defined as the difference between (a) total government revenue on a cash basis; and (b) total noninterest current expenditure plus investment expenditure (including foreign-financed investment) and net lending.

14. **The indicative target on the 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.

15. **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".

16. 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 expenditure for which the government's bank accounts have not been debited (*dépenses non imputées en banque*) must correspond to the change from period to period in the overall balance of these accounts taken together. The Government will provide information on the overall balance of all these accounts on a quarterly basis to the IMF.

⁵ Outstanding arrears on the bank debt in moratorium, which is included in the net claims of commercial banks on the government, are equal to zero.

Adjustments to quantitative benchmarks

17. A specific contingency mechanism for oil revenue is established for 2003, given the importance of oil for the Gabonese economy and the uncertainties regarding oil prices and output. As noted in paragraph 7, 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 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 and/or output are lower than projected in the baseline scenario, the shortfall, with a cumulative maximum of CFAF 33 billion (1 percent of GDP),⁶ could be offset by additional net bank credit—with an upward adjustment in the ceiling on net credit from the banking system to the government, and a downward adjustment in the floor on the primary fiscal balance. The remaining shortfall is to be covered by additional fiscal tightening (higher non-oil tax revenue and/or lower noninterest expenditure than programmed). If the oil revenue shortfall exceeds 2 percent of GDP, the quarterly fiscal targets will be reassessed in consultation with Fund staff.

18. The program also includes (downward/upward) adjusters for the performance criteria on net credit from the banking system to the government for higher/lower-than-programmed nonproject external financing disbursements (net of external debt service effectively paid)⁷, and for lower/higher-than-programmed net reduction of domestic arrears. The net credit from the banking system to the government will be adjusted upward for the total shortfall (i.e., the net external financing shortfall plus the excess in net reduction in domestic payments arrears), with a cumulative maximum of CFAF 33 billion.⁸ The program also includes a symmetric (downward/upward) adjuster for the net bank credit to the 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, and privatization proceeds are indicated in Table 1 of the Memorandum.

⁶ The cumulative maximum upward adjustment in net credit from the banking system to the government (CFAF 33 billion) applies to all adjusters combined.

⁷ 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.

⁸ The cumulative maximum upward adjustment in net credit from the banking system to the government (CFAF 33 billion) applies to all adjusters combined.

C. Structural Benchmarks

19. The structural performance criteria and benchmarks are specified in Table 2 of the MEFP attached to the letter of October 20, 2003.

D. Key Assumptions of the 2003 Program

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

	2003
World Brent oil prices (U.S. dollar per barrel)	27.2
Gabonese export oil prices (U.S. dollar per barrel)	26.0
Oil output (in millions of metric tons) ⁹	12.3
Exchange rate (CFA francs per US\$1, annual average)	590.0

E. Reporting Requirements

21. 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 each month to the IMF's African Department 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 government with the BEAC (PNG) and net credit from the banking system to the government, showing separately the cumulative deposits in the Special Account;
- (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,

⁹ The average conversion rate is 7.3 barrels per metric ton.

prices, turnover, costs, etc.), as well as the detailed breakdown of non-oil receipts (by type of tax) and nontax revenue;

(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;

(g) the details for the outstanding stock of domestic arrears (month to month) and the cumulative flows from January 1st, 2003: the net accumulation of new arrears during 2003 as defined in paragraph 10 by the difference between payment orders (*ordonnancements*) and payments made (cash basis), as well as the repayment of pre-2003 arrears, with both items to be broken down by wages and salaries, goods and services, transfers and subsidies, interest, capital expenditure, and net lending, and to show any stock-flow adjustment.

(h) the amount of new external debt contracted or guaranteed by the government, with the detailed information on the original terms and conditions (currency of denomination, interest rate, grace period, and maturity);

(i) 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;

(j) 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 category, oil production and exports of oil and timber (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; and

(k) a status report on the implementation of the structural reforms specified in Table 2 of the MEFP attached to the letter of October 20, 2003.

22. 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 August 31, 2003)

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

II. General Resources Account:	SDR Million	%Quota
Quota	154.30	100.00
Fund holdings of currency	198.60	128.71
Reserve position in Fund	0.18	0.12

III. SDR Department:	SDR Million	%Allocation
Net cumulative allocation	14.09	100.00
Holdings	0.04	0.28

IV. Outstanding Purchases and Loans:	SDR Million	%Quota
Stand-by arrangements	13.22	8.57
Extended arrangements	31.26	20.26

V. Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
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):

	Forthcoming				
	2003	2004	2005	2006	2007
Principal	5.06	16.72	16.72	4.60	1.38
Charges/Interest	0.29	0.96	0.61	0.33	0.23
Total	5.34	17.68	17.33	4.92	1.61

VII. Implementation of HIPC Initiative: Not Applicable

VIII. Safeguards Assessments:

Under the Funds's safeguards assessment policy, the Bank of Central African States (BEAC), of which Gabon is a member, is subject to a full safeguards assessment. An off-site safeguards assessment of the BEAC was completed on March 29, 2001. The assessment concluded that high risks may exist in financial reporting framework and internal audit mechanism, and recommended an on-site assessment. The on-site assessment was

completed on July 20, 2001. Staff's findings and recommendations are reported in SM/02/81 and Appendix V.

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 November 2001. The consultation was concluded by the Executive Board on April 1, 2002 (SUR/02/40; 4/5/02).

XI. FSAP Participation:

FSAP mission in Libreville and Yaoundé in June and July 2001. FSSA report has been issued.

XII. Technical Assistance:

Subject	Department	Staff Member	Date
Review of budgetary procedures and expenditure control	FAD	Mr. Bouley	November 2000
		Mr. Toussaint	May 2000
		Mr. Toussaint	April 1999
		Mr. Garamfalvi	April 1995
Value-added tax (VAT) administration issues	FAD	Mr. Grandcolas	August 1997
Tax administration and introduction of VAT	FAD	Mr. Grandcolas	June 1996
		Mr. Grandcolas	November 1995
Multitopic statistics mission	STA	Mr. Raymond	April 1999
		Mr. Raymond	) May 1998
		Ms. Doizé)
		Mr. Habanananda)
		Mr. Le Marois)
		Ms. Wesseling)

XIII. Resident Representative:

Mr. Richard Randriamaholy from October 2003.

Gabon: Relations with the World Bank

(As of October 15, 2003)

1. 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 exports 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 FIAS advisory services to help improve the investment climate.

The Bank Group strategy and lending operations

2. 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 recently extended until end-June 2004, so as 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.

3. The creation of the mutual fund and the restructuring program of the Social Security organization are under way. For the restructuring and privatization of HEVEGAB, an administrator has been appointed by the Court and a relaunch plan has been prepared with the technical assistance of a consultant. The tender for the privatization was launched in late September 2003. The preparation of the bidding documents for privatization of Gabon Télécom is progressing, but with some delay. The privatization transaction is now expected to be finalized in March 2004.

4. 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 December 31, 2003. 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). A follow-up to the Pilot Community Infrastructure Project is planned.

5. The Bank's portfolio consists only of the two projects mentioned above with total commitments of around US\$15 million, of which about US\$9.8 million was disbursed as of end-September 2003.

6. The government has prepared a National HIV/AIDS Plan and the Bank could be asked to support capacity building in this area. The Bank is also considering assisting the government in the design and financing of a Forestry and Environment support program, a transport sector operation and a diversification program. Future Bank assistance to Gabon will be defined within the context of a new Country Assistance Strategy (CAS) on which work will commence in the coming months.

TABLE 1. BANK/FUND COLLABORATION

Area of Structural Reform	Lead Institution
1. Fiscal area	
Civil service reform	IMF
Expenditure monitoring and control	IMF
Medium-term public expenditure review	World Bank
Tax administration	IMF
2. Governance	
Anticorruption law implementation	IMF
Code of ethics for government officials	IMF
3. Judicial reform	
Commercial code/competition	IMF
4. Private sector development	
FIAS study of the business climate	World Bank
Privatization	World Bank
5. Other	
Price controls	IMF
Forestry and environment	World Bank
External trade	IMF
Transport	World Bank
Urban development	World Bank
Diversification (may consider putting in pipeline if the government asks specifically)	World Bank

IMF-World Bank collaboration in specific areas

7. 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

8. 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 sees a role in analytic and advisory services in support of long-term diversification and poverty reduction.

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

9. In June 2002 the Bank closed 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 fiscal 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 and environment sectors, and thus assisting the government in its efforts to diversify the Gabonese economy and reduce its dependence on the oil sector.

10. The Bank, in conjunction with Foreign Investment Advisory Services (FIAS), is organizing a study to identify barriers to investment and to provide an action plan to remedy impediments to private sector growth.

Areas of shared responsibility

11. 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, since privatization revenues represent a potential source of funds for the budget. 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.

12. **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.

13. 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.

14. 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.

15. **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 (SM/02/166, 5/28/02; and SM/03/185, 5/28/03) to the staff's baseline scenario, and considering the impact of several shocks. In addition to the standard stress tests in the framework, this analysis includes shocks to growth in the non-oil sector, which is one of the main risks to debt sustainability. The baseline external sustainability scenario during the period 2003–10 shows that, under the assumption that the financing gaps are filled by new borrowing or by nonconcessional reschedulings, the debt-service burden peaks in 2009 and that financing gaps would be eliminated by 2013. The results of the public sector debt baseline analysis indicate that most of the outstanding domestic public debt will be eliminated by 2010, as it has a relatively short maturity. The stress tests reveal that Gabon is highly vulnerable to both external and internal shocks. In particular, Gabon's debt sustainability is extremely sensitive to shocks to non-oil real growth (affecting both non-oil exports and budgetary revenues). The results underscore the importance of adhering to policies fostering non-oil growth through adequate diversification and private sector development.

External public debt sustainability

1. **Over the medium term (2003–06), the baseline debt sustainability analysis (DSA) scenario shows that external debt-to-GDP ratios are projected to increase by 3 percentage points to 66 percent of GDP** (see Table 1 and Figure 1). The period 2003–06 is characterized by rapidly declining oil receipts and moderate non-oil GDP growth from a low level; thus, Gabon has a residual financing gap, averaging about CFAF 225 billion per year. It is assumed that there is a continued fiscal adjustment after this period. In the baseline scenario it is assumed that the gap is largely filled by rescheduling debt obligations to bilateral creditors on Houston terms. After 2006, the baseline scenario projects an improvement in the external debt-to-GDP ratio (a decline of about 12 percent of GDP between 2006 and 2010), on account of (i) continued growth of non-oil real GDP, and (ii) amortization in excess of new borrowings. The debt-service ratios would peak in 2008, at about 32 percent for the debt service-to exports ratio and 46 percent for the debt service-to-revenue ratio. In the period to 2012, further debt rescheduling would be required, although on a declining basis, which would significantly curtail the debt-service ratio on a cash basis. The analysis shows that the financing gaps in both the balance of payments and the budget could be eliminated by about 2013, provided the non-oil GDP, non-oil exports, and non-oil revenue continue to rise at a steady pace and more than offsets the decline in the oil sector.

2. **Under the standard set of sensitivity tests, Gabon's vulnerability to external shocks remains high, as the debt-to-GDP ratio climbs from 2002 to 2010 under most of the tests** (Table 1, bottom panel and Figure 1). Under the first test, which combines the effects of setting all key variables at their historical averages, the stock of debt-to-GDP ratio rises by 18 percentage points by 2010, mainly because the interest rate remains about 35 percent higher than in the baseline scenario.

3. **In each of the other standard sensitivity tests, which assume extreme adverse shocks to each key parameter individually and jointly, the debt ratio rises sharply over the 2003–10 period:¹**

- **Of all the shocks, the shock on interest rates (the historical interest rate plus one standard deviation for two years) results in the smallest initial rise in debt-to-GDP ratio in 2003–04, after which the debt reverts to the baseline trend of decline after 2007.** The difference between this shock and the first shock (described above) is that this shock is transitory, as the interest rate falls immediately to baseline levels after 2004.
- **Under a temporary shock to the U.S. dollar deflator, the debt ratio rises sharply by 37 percentage points by 2004, and by 38 percentage points overall by 2010.** This is because the deflator declines by 16 percent in each of the two shock years (2003 and 2004), instead of declining by 1 percent per year, as in the baseline scenario (which reverses the appreciation of the CFA franc vis-à-vis the U.S. dollar in 2002).
- **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 two years) is small.** The temporary shock is fully absorbed by end-2007; thereafter, the economy reverts back to its trend, where the non-oil current account improves steadily through 2010.
- **The combined shock leads to a sharp increase in the external debt ratio—a 40 percent increase over the 2003–10 period; this result is dominated by the deflator shock.**
- **A onetime 30 percent depreciation (defined here as vis-à-vis the U.S. dollar) in 2003 results in a rise of 20 percentage points in the stock of debt by 2007, but declines steadily thereafter;** this outcome reflects the fact that dollar-denominated debt accounts for less than 25 percent of the total external debt stock. However, if the depreciation were vis-à-vis the euro, the effect would be much stronger, as about 70 percent of external public debt is euro denominated.

4. **The analysis includes an additional sensitivity test, namely a long-term shock to non-oil real growth, which leads to a deterioration of the external current account (through lower non-oil exports).** The sharp rise in the stock of debt (20 percentage points at the end of the period) underscores the sensitivity of Gabon's economy to variations in non-oil

¹ One difference between this analysis and the standardized framework for assessing external debt sustainability is that these sensitivity analyses consider adverse shocks of one standard deviation (instead of two), lasting two years for each key parameter.

growth, as, without steady and substantial growth of non-oil GDP, the financing gap will continue to be large, requiring unsustainable levels of foreign borrowing.

Public sector debt sustainability

5. **Under the baseline projections, Gabon's total public sector debt-to-GDP ratio is programmed to decline during the program period from 76 percent of GDP in 2003 to 69 percent of GDP in 2006, as the repayment of domestic debt offsets the foreign borrowing needed to fill the financing gap.**² This trend continues in the post-program period, with the debt to GDP ratio falling to 54 percent by 2010. The key assumption underlying this overall improvement of total public sector debt sustainability is the continued growth of non-oil GDP, which will average around 4 percent per year over the period 2003-10, with non-oil budgetary revenues growing at the same rate.

6. **Under the first sensitivity test, which sets key parameters to their historical averages, Gabon's public sector debt burden drops quickly to sustainable levels over the period 2003-10 (Table 2 and Figure 2).** This result, however, could be misleading, as the historical averages were calculated during the height of Gabon's oil boom, when revenue-to-GDP ratios were high (close to 30 percent) owing to oil receipts, nominal GDP growth averaged 10 percent, and real interest rates were close to zero. In contrast, during 2003-10, the average revenue-to-GDP ratio is projected at about 28 percent, nominal GDP growth is projected at only 0.2 percent, and real interest rates are projected at 7 percent.

7. **Gabon's public debt sustainability vulnerabilities are brought to the fore in the stress test by using the primary balance as the shock variable.** A one-standard-deviation shock on the primary balance in 2003 and 2004 results in a 5 percentage point rise (27 percentage points above the baseline scenario) by 2010, as less domestic debt could be retired and more foreign borrowing would be needed to cover the financing gap.

8. **In many of the other sensitivity tests in the second set, which consider temporary shocks to other key parameters, Gabon's public debt remains stable or falls after the initial shock:**

² The main reasons for the decline of the public sector debt are (i) the government's reimbursement of domestic debt to suppliers (Gabon Télécom, the water and electricity company, etc.) and to public work contractors; (ii) the repayment by the government of public enterprise debt to the social security system and suppliers, which the government has assumed in recent years in the context of the restructuring of such enterprises (Air Gabon, agribusinesses, etc.); and (iii) the repayment to commercial banks of domestic debt that resulted partly from the banks purchasing claims on the government of private suppliers. All these debts have been consolidated on a relatively short repayment schedule (with maturities up to 2008).

- **A nominal interest rate shock of 2 percent would initially increase the stock of existing debt, but the overall debt-to-GDP ratio would remain broadly stable during the period to 2010.**
- **Not surprisingly, a combination of shocks, including to real GDP, the interest rate, and the primary balance, would result in a very high debt level during 2003–10 (which would rise by 25 percentage points of GDP by 2010), driven primarily by the shock to the primary balance.**
- **A 30 percent depreciation in the real exchange rate vis-à-vis the U.S. dollar at end-2003 would result in an initial jump in the level of debt, followed by a slow decline of the debt-to-GDP ratio over the long term, as less than 35 percent of the total public debt stock is U.S. dollar denominated. Again, since about 70 percent of total public sector debt is euro denominated, a 30 percent depreciation vis-à-vis the euro would have a strongly negative impact on the debt-to-GDP ratio.**
- **Similarly, a 10 percent increase in debt-creating flows in 2003, intended to capture contingent liabilities (of which Gabon has none), would raise the level of debt in 2003, but the same downward trend in debt-to-GDP ratios, albeit at a slower rate, would continue to 2010, as in the baseline scenario.**

9. **This analysis also contains an additional long-term shock; namely, a shock to real non-oil GDP growth, which affects non-oil budgetary revenue.**³ The result is that the debt dynamic becomes unsustainable, as the ratio of debt to GDP rises through 2010 (when it reaches 84 percent). Because the share of non-oil-revenue total budgetary revenue is expected to increase over the 2003–10 period—due to the expected rapid decline in oil production and to the projected acceleration of non-oil growth—slower growth of non-oil revenue results in larger financing needs and, hence, higher foreign borrowing. This stress test emphasizes that the main factor in Gabon’s debt sustainability lies in its ability to sustain steady growth of the non-oil sector through diversification.

³ In this scenario, non-oil real GDP growth is cut from 4 percent per year on average in the baseline scenario to 2 percent per year; the non-oil component of total revenue is also reduced from 4 percent growth to 2 percent.

Table 1. Gabon: External Debt Sustainability Framework, 1997–2010
(In percent of GDP, unless otherwise indicated)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	Projections				
										2006	2007	2008	2009	2010
I. Baseline Medium-Term Projections														
External debt	71.3	84.9	79.6	63.6	63.6	62.6	63.3	63.5	64.7	66.2	66.8	61.6	58.5	54.2
Change in external debt	0.2	13.6	-5.3	-16.0	0.0	-1.0	0.7	0.2	1.2	1.5	0.6	-5.1	-3.1	-4.3
Identified external debt-creating flows (4+8+11)	-3.1	21.1	-2.8	-18.2	1.6	-3.7	0.6	0.7	2.8	2.6	0.7	-2.6	-5.0	-5.2
Current account deficit, excluding interest payments	-8.2	15.6	3.3	-10.4	-6.5	-4.2	-0.5	0.5	1.0	2.0	2.8	0.9	-1.0	-1.5
Deficit in balance of goods and services	-18.0	24.5	-8.0	-16.5	6.8	-5.1	2.0	4.0	3.8	4.7	5.5	3.4	1.1	0.5
Exports	64.7	46.6	57.4	67.0	59.0	58.0	57.3	55.6	48.8	45.2	41.4	38.0	36.3	34.7
Imports	46.7	71.1	49.5	50.5	65.9	52.9	59.3	59.5	52.5	49.9	46.9	41.3	37.5	35.3
Net non-debt creating capital inflows (negative)	1.9	-10.3	-2.7	1.9	-1.8	-2.2	-3.4	-3.6	-3.7	-3.7	-5.2	-5.8	-5.0	-4.9
Net foreign direct investment, equity	0.1	3.5	3.5	-3.4	-0.5	0.7	4.0	1.4	1.1	1.2	2.7	3.6	3.5	3.4
Net portfolio investment, equity, and other private capital flows	-2.0	6.8	-0.8	1.5	2.3	1.6	-0.6	2.2	2.6	2.5	2.5	2.2	1.5	1.5
Automatic debt dynamics 1/	3.3	15.9	-3.3	-9.6	9.9	2.7	4.5	3.8	5.5	4.3	3.1	2.4	1.0	0.9
Contribution from nominal interest rate	5.4	3.1	2.4	4.3	6.2	3.5	3.4	4.2	3.6	3.6	3.5	3.3	2.9	2.7
Contribution from real GDP growth	-4.4	-2.9	7.3	1.4	-1.4	0.0	-0.1	-1.2	-0.3	-0.6	-0.7	-1.4	-2.0	-2.2
Contribution from price and exchange rate changes 2/	2.2	15.7	-13.0	-15.3	5.0	-0.8	1.2	0.8	2.2	1.3	0.3	0.4	0.2	0.4
Residual, incl. change in gross foreign assets (2-3)	3.3	-7.5	-2.6	2.2	-1.6	2.8	0.1	-0.5	-1.7	-1.1	-0.1	-2.6	1.8	1.1
External debt-to-exports ratio (in percent)	110.2	182.3	138.6	95.0	107.7	108.1	110.5	114.2	132.6	146.4	161.2	162.4	161.2	156.0
Gross external financing need (in billions of US dollars) 3/ in percent of GDP	0.2	1.0	0.4	0.0	0.3	0.3	0.5	0.6	0.6	0.6	0.7	0.7	0.5	0.4
Key Macroeconomic and External Assumptions														
Real GDP growth (in percent)	5.7	3.5	-8.9	-1.9	2.0	0.0	0.1	1.8	0.4	0.9	1.1	2.1	3.4	3.8
Real non-oil GDP growth (in percent)	12.8	4.6	-7.1	5.1	7.6	0.4	2.4	3.5	4.0	4.4	4.5	4.5	4.5	4.5
Exchange rate appreciation (US dollar value of local currency, change in percent)	-12.4	-1.1	-4.1	-13.4	-3.0	5.3	17.9	-4.1	-5.7	0.2	0.2	0.0	0.0	0.0
GDP deflator in US dollars (change in percent)	-11.5	-18.7	14.4	11.3	-9.4	5.3	11.2	-4.2	-7.3	-1.9	-0.3	-0.6	-0.3	-0.7
Non-oil GDP deflator in US dollars (change in percent)	-10.3	-3.2	-0.5	-10.8	-0.9	5.1	19.5	-2.5	-4.2	1.6	1.8	1.8	0.0	0.0
Nominal external interest rate (in percent)	7.2	3.7	3.0	5.8	9.0	5.8	6.1	6.5	5.3	5.5	5.4	5.1	4.8	4.7
Growth of exports (US dollar terms, in percent)	-3.8	-37.8	31.7	28.3	-18.7	3.1	-2.2	-8.6	-9.6	-10.2	-9.3	-8.6	-2.2	-2.2
Growth of non-oil exports (US dollar terms, in percent)	14.8	-25.8	32.0	-0.5	-13.7	1.1	15.4	-0.6	5.7	10.0	4.5	5.9	5.8	4.6
Growth of imports (US dollar terms, in percent)	0.1	13.7	-33.1	9.3	11.8	8.5	19.9	-4.0	0.0	0.2	-1.5	-4.3	-2.1	0.5
Growth of non-oil private imports (US dollar terms, in percent)	-41.5	34.1	-20.5	-3.8	10.1	26.0	26.9	-3.4	4.3	4.2	5.2	5.6	4.5	4.5
II. Stress Tests for External Debt Ratio														
1. Real GDP growth, nominal interest rate, dollar deflator, non-interest current account, and non-debt inflows are at historical average in 2003–07						62.6	72.6	72.2	69.7	70.8	72.8	72.5	76.7	80.4
2. Nominal interest rate is at historical average plus one standard deviation in 2003 and 2004						62.6	65.6	68.1	69.7	71.5	72.4	67.4	64.4	60.2
3. Real GDP growth is at historical average minus one standard deviation in 2003 and 2004						62.6	65.6	69.6	71.3	73.3	74.2	69.3	66.3	62.1
4. Change in US dollar GDP deflator is at historical average minus one standard deviation in 2003 and 2004						62.6	85.1	99.4	103.7	107.8	110.4	106.8	104.5	100.9
5. Non-interest current account is at historical average minus one standard deviation in 2003 and 2004						62.6	67.9	72.0	73.8	76.0	77.1	72.3	69.3	65.2
6. Combination of 2-5 using one standard deviation shocks						62.6	96.0	126.0	132.6	138.7	142.8	140.3	138.5	135.5
7. One time 30 percent nominal depreciation in 2003						62.6	75.5	76.5	78.8	81.2	82.5	78.0	75.1	71.0
8. Non-oil real growth is 2 percent per year (half the rate of growth in the baseline)						62.6	65.3	66.2	70.1	75.4	80.7	81.4	83.0	84.1
Historical statistics for key variables (past 10 years)														
		Historical Average	Standard Deviation					Average 2003–10						
Current account deficit, excluding interest payments		-5.1	9.2					0.5						
Net non-debt creating capital inflows		-2.0	6.2					4.4						
Nominal external interest rate (in percent)		7.3	2.5					5.4						
Real GDP growth (in percent)		1.4	4.6					1.7						
GDP deflator in US dollars (change in percent)		-1.6	14.5					-0.5						

Sources: Gabonese authorities and Fund staff estimates and projections.

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

2/ The contribution from price and exchange rate changes is defined as $[-\rho(1+g) + \epsilon\alpha(1+r)] / (1+g+\rho+g\alpha)$ times previous period debt stock. ρ increases with an appreciating domestic currency ($\epsilon > 0$) 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 2. Gabon: Public Sector Debt Sustainability Framework, 1997–2010
(In percent of GDP, unless otherwise indicated)

	Actual		Projections											
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
I. Baseline Medium-Term Projections														
Public sector debt 1/	87.0	109.8	101.1	73.0	75.8	76.6	76.0	71.6	69.5	68.9	67.7	62.2	58.5	54.2
Change in public sector debt	-0.9	22.8	-8.7	-28.1	2.9	0.8	-0.7	-4.4	-2.0	-0.6	-1.1	-5.6	-3.7	-4.3
Identified debt-creating flows (4+7+12)	-5.2	27.8	-7.8	-29.9	0.4	-5.6	-4.9	-4.5	-1.2	-1.2	-2.1	-3.7	-4.9	-5.0
Primary deficit	-7.8	6.3	-8.0	-17.5	-12.0	-7.9	-10.9	-8.4	-7.7	-6.0	-5.5	-6.4	-6.4	-6.3
Revenue and grants	33.1	34.5	28.3	33.4	34.0	31.6	31.7	29.1	28.7	27.2	26.3	26.3	25.5	24.9
of which: Non-oil revenue	12.4	15.6	15.5	11.0	12.2	13.9	15.6	15.9	17.1	18.1	18.9	20.1	20.3	20.6
Primary (noninterest) expenditure	25.4	40.8	20.3	15.9	22.0	23.7	20.8	20.7	21.0	21.2	20.7	19.9	19.1	18.6
Automatic debt dynamics 2/	3.5	21.4	0.3	-12.3	12.5	2.4	6.1	4.5	6.5	4.8	3.5	2.7	1.5	1.4
Contribution from interest rate/growth differential 3/	0.7	22.9	-1.8	-15.0	12.4	4.4	8.7	3.5	5.1	4.9	3.5	2.8	1.5	1.4
Of which contribution from real interest rate	5.4	26.4	-10.9	-16.6	14.0	4.4	8.8	4.8	5.4	5.5	4.2	4.2	3.6	3.5
Of which contribution from real GDP growth	-4.7	-3.6	9.0	1.5	-1.6	0.0	-0.1	-1.3	-0.3	-0.6	-0.7	-1.4	-2.0	-2.2
Contribution from exchange rate depreciation 4/	2.7	-1.5	2.1	2.7	0.1	-2.0	-2.6	1.0	1.3	0.0	0.0	0.0	0.0	0.0
Denominator = $1+g+\pi+g\pi$	1.1	0.9	1.1	1.3	1.0	1.0	0.9	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Other identified debt-creating flows	-0.9	0.0	-0.1	-0.1	-0.1	-0.1	0.0	-0.5	0.0	0.0	0.0	0.0	0.0	0.0
Privatization receipts (negative)	-0.9	0.0	-0.1	-0.1	-0.1	-0.1	0.0	-0.5	0.0	0.0	0.0	0.0	0.0	0.0
Recognition of implicit or contingent liabilities	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
Other (specify, e.g. bank recapitalization)	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
Residual, including asset changes (2-3)	4.4	-4.9	-0.9	1.8	2.5	6.4	4.2	0.1	-0.8	0.5	0.9	-1.9	1.2	0.6
Public sector debt-to-revenue ratio 1/	262.6	318.3	356.7	218.6	222.8	242.5	239.3	245.7	242.0	253.5	257.6	236.4	229.6	217.8
Gross financing need 5/	8.6	17.9	6.4	5.9	6.5	6.2	2.4	10.9	5.6	6.2	6.1	6.5	5.3	2.2
in billions of U.S. dollars	0.5	0.8	0.3	0.3	0.3	0.3	0.1	0.6	0.3	0.3	0.3	0.3	0.3	0.1
Key Macroeconomic and Fiscal Assumptions														
Real GDP growth (in percent)	5.7	3.5	-8.9	-1.9	2.0	0.0	0.1	1.8	0.4	0.9	1.1	2.1	3.4	3.8
Average nominal interest rate on public debt (in percent) 6/	7.6	7.5	6.7	7.3	11.5	5.8	5.2	6.3	5.6	5.7	5.7	5.6	5.6	5.5
Average real interest rate (nominal rate minus change in GDP deflator, in percent)	6.7	25.2	-12.4	-21.2	18.1	5.8	10.9	6.4	7.4	7.8	6.2	6.2	5.9	6.2
Exchange rate (Local currency per US dollar, end of period)	598.8	562.2	619.5	713.5	718.4	658.0	590.0	615.0	651.2	650.2	649.6	649.5	649.5	649.5
Nominal depreciation of local currency (CFA franc per dollar)	14.3	-6.1	10.2	15.2	0.7	-8.4	-10.3	4.2	5.9	-0.2	-0.1	0.0	0.0	0.0
GDP deflator (in percent)	0.9	-17.8	19.2	28.5	-6.6	0.0	-5.7	-0.1	-1.8	-2.1	-0.5	-0.6	-0.3	-0.7
Growth of real primary spending (deflated by GDP deflator, in percent)	55.1	66.7	-54.7	-23.4	41.4	7.9	-12.0	1.1	2.1	1.4	-0.9	-2.2	-0.9	0.7
II. Stress Tests for Public Debt Ratio														
1. Real GDP growth, real interest rate, and primary balance are at historical averages in 2003–07						76.6	71.0	64.1	57.0	50.2	44.0	35.0	29.2	22.9
2. Real interest rate is at historical average plus one standard deviation in 2003 and 2004						76.6	82.1	88.1	87.5	88.1	88.0	83.2	80.1	76.3
3. Real GDP growth is at historical average minus one standard deviation in 2003 and 2004						76.6	78.5	77.8	75.6	74.8	73.5	67.6	63.5	58.8
4. Primary balance is at historical average minus one standard deviation in 2003 and 2004						76.6	86.9	91.7	91.5	92.4	92.4	87.9	84.8	81.1
5. Combination of 2-4 using one standard deviation shocks						76.6	96.2	119.1	118.8	119.2	118.2	112.4	107.7	102.4
6. One time 30 percent real depreciation in 2003 7/						76.6	86.8	83.0	82.0	82.2	81.8	76.8	73.5	69.5
7. 10 percent of GDP increase in other debt-creating flows in 2003						76.6	86.0	82.2	81.1	81.2	80.7	75.7	72.3	68.4
8. Non-oil revenue growth rate 1/2 of that in the baseline scenario						76.6	78.3	74.5	75.2	78.4	81.8	81.4	83.0	84.1
Historical statistics for key variables (past 10 years)														
			Historical Average											
				Standard Deviation										
								Average 2003–10						
Primary deficit			-6.6					-7.2						
Real GDP growth (in percent)			1.4					1.7						
Nominal interest rate (in percent) 6/			8.8					5.6						
Real interest rate (in percent)			0.3					7.1						
Inflation rate (GDP deflator, in percent)			8.5					-1.5						
Revenue to GDP ratio			28.9					27.5						

Sources: Gabonese authorities and Fund staff estimates and projections.

1/ Public debt is defined as gross debt held by the general government.

2/ Derived as $[(r - \pi(1+g) - g + \alpha\epsilon(1+\pi))/(1+g+\pi+g\pi)]$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; α = share of foreign-currency denominated debt; and ϵ = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

3/ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - \pi(1+g)$ and the real growth contribution as $-g$.

4/ The exchange rate contribution is derived from the numerator in footnote 2/ as $\alpha\epsilon(1+\pi)$.

5/ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.

6/ Derived as nominal interest expenditure divided by previous period debt stock.

7/ Real depreciation is defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Table 3. Gabon: Baseline Debt Sustainability Analysis 2002–23
(In billions of CFA francs, unless otherwise noted)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Averages	
												2002–10	2011–23
I. Total stock of external debt 1/	2,061.4	2,103.1	2,110.9	2,133.7	2,165.4	2,046.1	1,984.1	1,886.6	1,780.8	1,663.2	1,561.1	2,072.4	1,191.8
II. DSA ratios													
Ratio of external debt / GDP	63.3	63.5	64.7	66.2	66.6	61.6	58.5	54.2	49.8	45.2	41.1	62.3	30.4
Ratio of total external debt / exports	110.1	113.3	120.7	132.4	150.0	154.0	158.4	155.9	149.0	140.4	132.2	134.3	93.4
Ratio of total external debt / revenues 2/	199.3	218.0	225.1	243.5	253.9	236.4	229.6	217.8	211.1	195.9	179.8	224.6	130.9
Ratio of external debt service / exports	16.8	19.7	21.5	22.6	25.3	32.1	31.6	23.8	26.9	27.8	19.7	23.7	17.4
Ratio of external debt service/ revenues 2/	30.0	37.3	36.0	37.0	39.3	45.5	44.2	32.7	37.7	38.6	26.8	37.4	24.4
Growth of total exports 3/	-7.9	-11.2	-24.2	-32.1	-38.5	-43.7	-45.0	-46.1	-47.0	-47.5	-47.7	-27.9	-36.3
of which: non-oil	0.5	5.7	6.9	9.8	4.4	5.9	5.8	4.6	4.7	4.8	4.9	5.3	5.2
Growth of total imports 3/	7.6	10.0	7.8	7.8	4.8	1.4	-0.8	-0.3	1.0	3.4	5.9	4.6	19.1
of which: non-oil	11.3	5.7	4.0	4.0	4.5	4.6	4.5	4.5	4.5	4.5	4.5	7.0	4.3
Current Account (including transfers)	-93.6	-156.5	-149.3	-178.6	-205.6	-139.8	-65.0	-41.9	-19.3	-11.8	-21.9	-111.9	154.3
in percent of GDP	-2.9	-4.7	-4.6	-5.5	-6.3	-4.2	-1.9	-1.2	-0.5	-0.3	-0.6	-3.4	-0.5
Overall balance	-99.9	-105.5	-123.7	-157.9	-122.3	-113.0	-127.8	-41.2	-72.6	-75.2	22.3	-114.2	119.2
in percent of GDP	-3.1	-3.2	-3.8	-4.9	-3.8	-3.4	-3.8	-1.2	-2.0	-2.0	0.6	-3.4	-2.0
Financing gap	0.0	531.8	184.9	185.8	163.1	117.9	127.5	40.8	72.2	74.9	-22.5	150.2	-69.3
in percent of GDP	0.0	16.1	5.7	5.8	5.0	3.6	3.8	1.2	2.0	2.0	-0.6	4.6	-0.9

Sources: Gabonese authorities and Fund staff estimates and projections.

1/ Public and publicly guaranteed debt.

2/ Including grants.

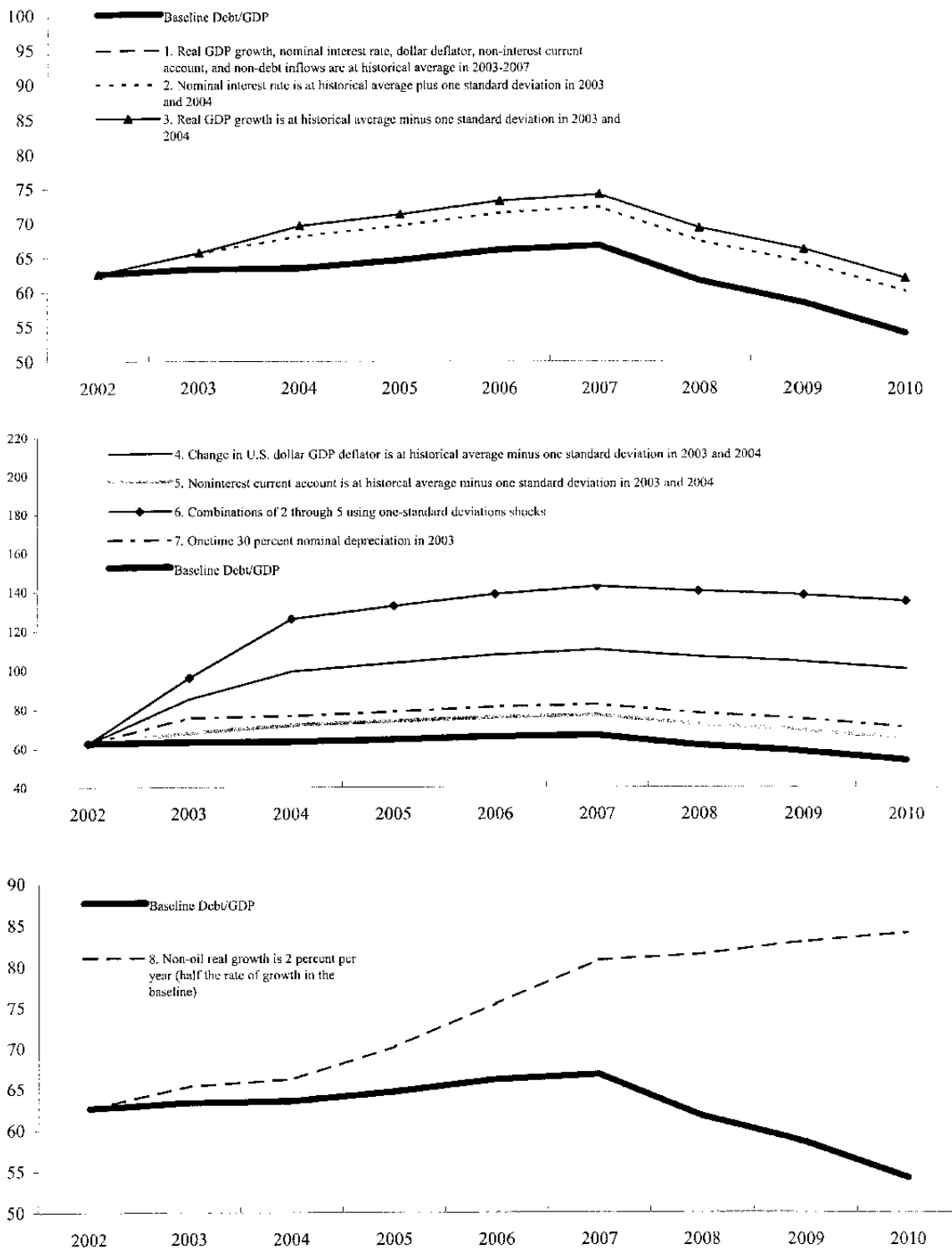
3/ Growth rate measured in CFA franc value terms.

Table 4. Gabon: Macroeconomic Projections for the Baseline Debt Sustainability Analysis, 2003–23
(In billions of CFA francs, unless otherwise indicated)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2003–10	Averages 2011–23	2003–23
Sector projections												
1. Real Sector												
Real GDP growth rate	0.1	1.8	0.4	0.9	1.1	2.1	3.2	3.4	3.6	1.6	3.7	2.9
<i>Of which:</i> non-oil GDP growth	2.4	3.5	4.0	4.4	5.0	5.0	4.5	4.5	4.5	4.0	4.2	4.2
Nominal GDP ¹ growth rate	-5.5	1.7	-1.4	-1.2	0.8	2.1	2.2	2.5	2.7	0.1	3.5	2.2
Nominal GDP levels	3,257.8	3,312.4	3,265.0	3,225.0	3,251.5	3,319.7	3,393.9	3,479.0	3,574.7	3,313.1	4,426.9	4,002.6
<i>Of which:</i> oil GDP	1,174.2	1,121.8	950.7	774.4	639.9	518.5	466.7	420.0	378.0	758.3	271.7	457.1
non-oil GDP	2,083.6	2,190.6	2,314.2	2,450.6	2,611.6	2,801.2	2,927.3	3,059.0	3,196.6	2,554.8	4,155.2	3,545.5
Oil production (millions of metric ton)	12.3	11.8	10.3	8.8	7.3	6.2	5.6	5.0	4.5	8.4	3.2	5.2
Oil prices (U.S. dollar per ton)	27.2	25.5	22.0	21.0	21.0	20.0	20.0	20.0	20.0	22.1	20.0	20.8
2. Balance of Payments												
Current Account (including transfers)	-93.6	-156.5	-149.3	-178.6	-205.6	-139.8	-65.0	-41.9	-19.3	-128.8	85.0	3.6
Current Account (in percent of GDP)	-2.9	-4.7	-4.6	-5.5	-6.3	-4.2	-1.9	-1.2	-0.5	-3.9	1.6	-0.5
Exports, <i>f.o.b.</i>	1,729.1	1,668.2	1,422.7	1,275.7	1,155.8	1,056.5	1,033.7	1,011.4	995.7	1,294.1	1,119.5	1,186.0
Oil sector	1,333.1	1,249.7	975.2	784.3	643.0	513.3	458.9	409.8	365.7	795.9	254.1	460.5
Other sectors	396.0	418.5	447.5	491.4	512.8	543.1	574.8	601.5	630.0	498.2	865.5	725.6
Imports, <i>f.o.b.</i>	-732.1	-748.8	-734.0	-733.6	-713.1	-690.3	-675.4	-678.4	-687.8	-713.2	-798.3	-765.9
Oil sector	-285.4	-284.8	-251.2	-234.6	-201.2	-168.0	-142.2	-133.5	-125.2	-212.6	-79.8	-130.4
Government	-68.8	-72.9	-76.0	-75.8	-69.7	-59.5	-49.5	-39.5	-34.5	-64.0	-34.5	-45.7
Non-oil private sector	-377.9	-391.0	-406.9	-423.2	-442.3	-462.8	-483.6	-505.4	-528.1	-436.6	-684.0	-589.8
Trade balance	996.9	919.3	688.6	542.1	442.7	366.2	358.3	333.0	307.9	580.9	321.2	420.1
Services (net)	-1,062.8	-1,050.3	-811.5	-694.7	-622.3	-479.6	-397.0	-348.7	-301.1	-683.4	-210.6	-390.7
<i>Of which:</i> interest on external debt	-110.9	-138.8	-117.4	-115.3	-114.6	-112.5	-93.1	-89.3	-84.7	-111.5	-56.2	-77.3
Transfers (net)	-27.7	-25.6	-26.5	-26.0	-26.0	-26.4	-26.3	-26.2	-26.1	-25.2	-25.6	-25.9
Capital account	-6.3	51.1	25.6	20.7	19.5	26.7	-62.9	0.7	-53.3	9.4	7.5	8.3
Medium and Long term	24.2	71.3	37.6	45.0	32.5	40.4	-51.9	15.2	-28.7	26.8	13.7	18.7
<i>Of which:</i> government drawings (project)	32.5	82.0	42.0	46.0	50.0	50.0	50.0	50.0	50.0	50.3	50.0	50.1
amortization 1/	-191.7	-207.5	-205.7	-204.9	-210.0	-218.4	-283.4	-190.2	-228.3	-214.0	-160.5	-180.9
Foreign direct investment	110.0	120.0	120.0	120.0	105.9	120.0	120.0	100.0	100.0	114.5	104.6	108.4
Private debt	73.4	76.8	81.3	84.0	86.6	88.8	61.5	55.4	49.7	76.0	19.6	41.1
Short-term debt	-30.5	-20.3	-12.0	-24.4	-13.0	-13.7	-11.0	-14.5	-24.6	-17.4	-6.2	-10.5
Overall balance	-99.9	-105.5	-123.7	-157.9	-122.3	-113.0	-127.8	-41.2	-72.6	-111.4	92.5	14.8
Memorandum items:												
Net IMF purchases (+ = net drawing)	-7.9	-13.7	-14.5	-4.0	-1.2	0.0	0.0	0.0	0.0	-5.2	0.0	-2.0
Fiscal revenues, including grants	1,034.1	964.9	937.9	876.3	852.7	865.7	864.2	866.1	843.6	1,179.5	996.7	962.8
Exports of goods and services	1,850.4	1,824.1	1,572.9	1,436.7	1,321.7	1,227.3	1,209.7	1,192.6	1,182.4	1,454.4	1,343.8	1,386.0
Non-oil export growth rate	0.5	5.7	6.9	9.8	4.4	5.9	5.8	4.6	4.7	5.5	5.2	5.3
Non-oil import growth rate	11.3	5.7	4.0	4.0	4.5	4.6	4.5	4.5	4.5	5.4	4.2	4.6

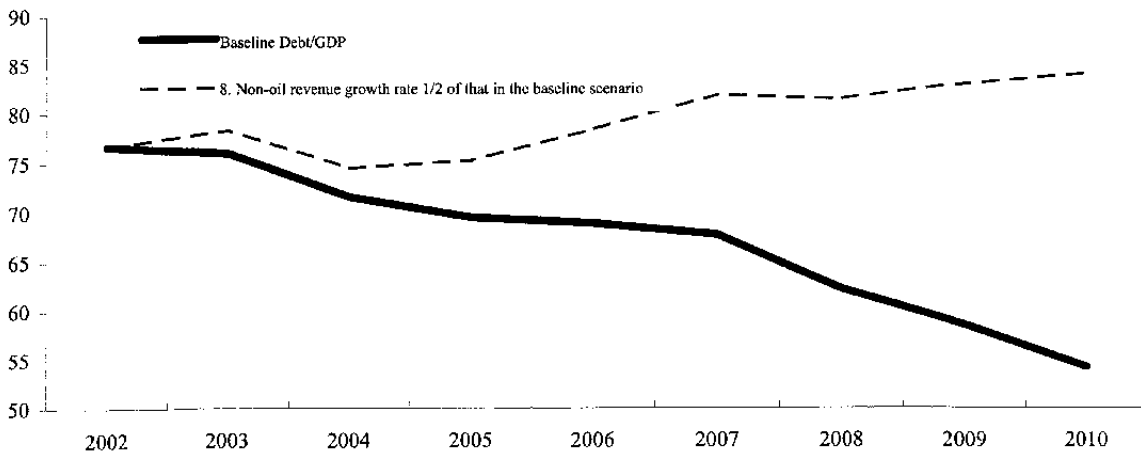
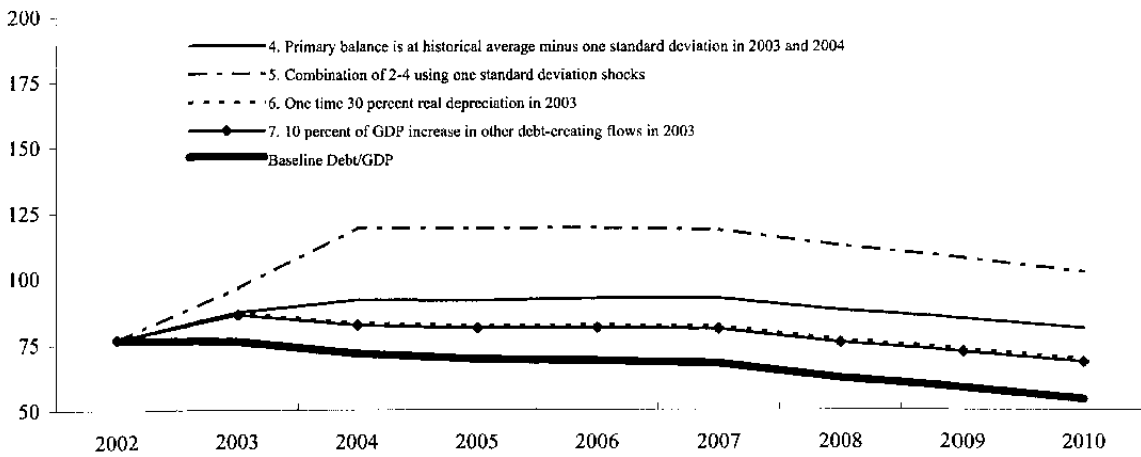
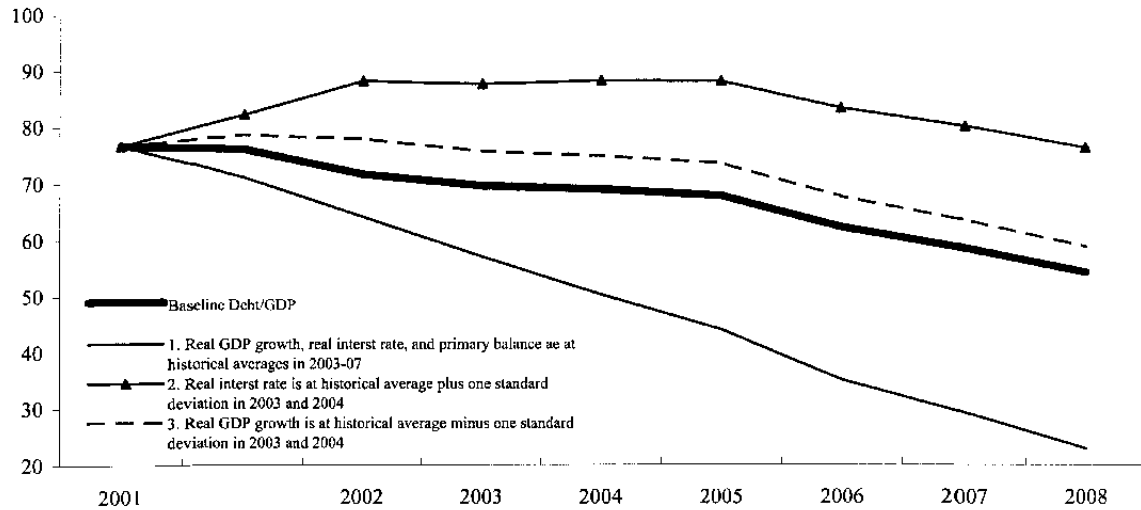
Sources: Gabonese authorities and Fund staff estimates.

Figure 1. Gabon: External Public Debt Sustainability, 2002–2010
(In percent of GDP)



Source: IMF staff estimates and projections.

Figure 2. Gabon: Total Public Sector Debt Sustainability, 2002–2010
(In percent of GDP)



Source: IMF staff estimates and projections.

Bank of Central African States: Safeguards Assessment

Introduction

The Bank of Central African States (BEAC) is the common central bank of the Central African States, which includes Gabon. A Stage Two (on site) safeguards assessment of the BEAC proposed specific remedies to alleviate vulnerabilities that were identified by staff. The authorities have committed to implementing most of the proposed remedies, as described in the following sections.

Safeguards Areas and Main Remedies

The external audit mechanism: The auditing function and the quality control procedures of the external auditor are adequate. The safeguards assessment proposed that: (i) the external auditor refer explicitly to the international standards of auditing (ISA) in its opinion, (ii) the external auditor become more cognizant of the accounting rules applicable to the recording of Fund's balances; and (iii) the BEAC should include the audit opinion in the annual publication of the financial statements.

The BEAC is currently upgrading its accounting system and will publish its 2002 annual financial statements and the audit opinion, after the approval by the Board, on the bank website.

Legal Structure and Independence: The legislation governing BEAC is adequate.

Financial Reporting: The monthly statements of the bank's financial position are not published in any form and the December 31, 2000 audited financial statements were not published in a timely manner. The staff recommended that the BEAC: (i) enhance the readability and the credibility of the published annual accounts by including detailed explanatory notes on the accounting methods followed, and whether these methods referred explicitly to a generally accepted accounting framework; (ii) adopt International Accounting Standards; and (iii) change the accounting of some of its operations with the Fund, especially with regard to the revaluation of the IMF accounts.

The management of the BEAC has agreed to implement these recommendations. The BEAC, with the assistance of Banque de France, is working to modify its accounting framework and align its accounting and reporting practices with IAS and the ECB framework, including the Fund-related accounts. It is anticipated that the new framework will be in effect for the 2003 financial statements.

Internal Audit Mechanism: The quality of the personnel, the rigorous methods followed for the audit of branches, the training program in place, and the risk assessment methods in place are satisfactory. However, certain weaknesses remain and staff recommended that the BEAC:

(i) establish a charter for the Internal Audit Department (IAD); (ii) expand the audit scope and coverage of IAD to include activities at headquarters; (iii) prepare an annual rolling multi-year audit program describing risk assessment, activities scheduled, staffing and financial resources required, and (iv) increase the number of qualified staff.

These recommendations are being implemented by the BEAC. In its response to the Stage Two report, the management of the BEAC has specifically agreed to expand the scope and coverage of the audit department, and increase the number of qualified staff. A draft for a new IAD's charter has been prepared and will be submitted to management's approval.

The System of Internal Controls: On the whole, the risks are relatively well captured, although uncertainties exist because of insufficient a posteriori controls exercised on some activities at headquarters. The bank has a codified system of rules, selects its personnel carefully, maintains segregation of duties in the branches, and has recently increased resources for control purposes. Nevertheless, the staff recommended that BEAC: (i) strengthen the coordination among the audit bodies; (ii) examine in depth the segregation of duties at headquarters; and (iii) put in place a more systematic follow-up of all recommendations made by the external auditor to allow the Governor and the Board of Directors to better exercise their oversight responsibilities.

The Board of Directors of the BEAC has designated in July 2003 the five members of its audit committee, including three members of the existing censors' committee, one rotating board member chosen among the countries that are not already represented in the censors' committee, and one member representing outside non-executive directors.

Regarding late payments of Fund obligations, which was an issue for all of the BEAC's member countries at some time in the last three years, the staff concluded that, while the BEAC's own payment procedures and related management controls in this area are functioning adequately, procedures should be modified with respect to BEAC's relations with member countries. The staff recommended that the BEAC should repay the Fund directly using its own resources for those countries with borrowing capacity with the central bank; for countries facing fiscal difficulties, staff recommended that they at least maintain sufficient borrowing capacity with the BEAC to repay IMF obligations falling due within the next year. In its answer to the Stage Two Report, the management of the BEAC did not follow the mission's recommendation that the BEAC should repay the Fund directly. The management also commented that apart from direct statutory advances to Treasuries, the BEAC could not grant loans to member countries. These advances are scheduled to disappear in favor of the issuance of government bonds for financing fiscal requirement.

The staff has subsequently decided to discontinue this recommendation and consider it as implemented.

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 recent 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 Edition (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 1999. 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 September 30, 2003)

	Exchange Rates ¹	International Reserves	Reserve/ Base Money	Central Bank Balance Sheet	Broad Money	Interest Rates ²	Consumer Price index	Exports and Imports	Current Account Balance	Overall Government Balance	National Accounts ¹	External Debt
Date of latest observation	9/15/03	7/31/03	7/31/03	7/31/03	7/31/03	7/31/03	8/03	6/30/03	12/31/02	8/03	2002	8/03
Date received	9/18/03	8/24/03	8/24/03	8/24/03	8/24/03	7/31/03	9/03	7/24/03	4/1/03	9/24/03	4/03	9/24/03
Frequency of data ³	D	M	M	M	M	M 1/	M	M	M	M	M	M
Frequency of reporting ³	D	M	M	M	M	V 1/	M	A	V	M	V	M
Source of data ⁴	N	A	A	A	A	A	A	A	A	A	A	A
Mode of reporting ⁵	O 2/	E	E	E	E	C	C	V	V	C	V	V
Confidentiality ⁶	C	A	A	A	A	A	A	A	A	A	A	A
Frequency of publication ³	D	M	M	M	M	M	M	A	A	Q	A	A

¹ Information communicated to staff as interest rates are adjusted.

² As reported in the daily Morning Press (euro exchange rate).

³ D = daily; M = monthly; Q = quarterly; A = annually; V = staff visits.

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

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

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



INTERNATIONAL MONETARY FUND

Public Information Notice

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Public Information Notice (PIN) No. 03/137
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International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Concludes 2003 Article IV Consultation with Gabon

On November 10, 2003, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Gabon.¹

Background

Owing mainly to the drop in oil production, Gabon's economy continues to face major challenges, including a high debt burden, the need to diversify the economy more rapidly, to promote growth, and to combat poverty. The absence of sustained adjustment policies has contributed to Gabon's uneven economic performance over the past three years. In view of the weaknesses in the implementation of previous adjustment programs, the authorities have focused since 2002 on strengthening budgetary management and program monitoring to ensure that their long-term efforts are underpinned by solid foundations. 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 aims at raising non-oil revenue and reducing substantially the non-oil primary fiscal deficit; its implementation in the first half of 2003 was satisfactory.

Oil production dropped by about 17 percent between 1999 and 2002, although in 2002 the decline was very small. An additional slight decline is expected in 2003. Activity in the non-

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

oil sector, which in 2000 and 2001 showed significant recovery after the recession of 1999, weakened markedly in 2002, when real growth fell to less than 1 percent from 5 percent in 2001. Some pick-up is projected in 2003. Inflation, as measured by the consumer price index, was low over the period, averaging less than 2 percent.

On the policy front, following the relaxation of overall fiscal policy during the second half of 2001, efforts were made in 2002 to strengthen budget management, and non-oil revenue rose by 1.7 percentage points of GDP. However, efforts to contain expenditure were hampered by the costs related to the restructuring of public enterprises. Due to declining oil revenue, the primary budgetary surplus declined from 12 percent in 2001 to 7.9 percent in 2002. This contributed to a drop in the external current account surplus from 6.2 percent of GDP in 2000 to 0.7 percent in 2002. While Gabon was able to reduce the external public debt-to-GDP ratio from 80 percent at end-1999 to 63 percent at end-2002, substantial external payments arrears accumulated in 2001–02, reaching CFAF 278 million at end-2002 (8 percent of GDP).

In 2002, the government's net position vis-à-vis the banking system strengthened markedly, and Gabon's contribution to the international reserves of the Bank of Central African States (BEAC) reached CFAF 92 billion (about 3 percent of GDP). Credit to the economy increased substantially, at an annual rate of 8.7 percent. Broad money expanded by 5.7 percent, somewhat faster than nominal GDP. A small decline in broad money took place in the first half of 2003. The banking system as a whole remains sound; data from the regional banking commission for Central African States (COBAC) show that all banks respected the prudential standards, although two banks were only slightly over the minimum liquidity ratio.

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 anticorruption legislation, the revamping of the computerized budget information system, and the reform of the procurement code.

Executive Board Assessment

Executive Directors commended the Gabonese authorities for moving to break with their past uneven record of economic performance and embarking on a program of prudent fiscal policies and far-reaching structural reforms that could facilitate the resumption of external financial support and lay the basis for higher sustainable economic growth and enhanced social sector development. They particularly welcomed the actions taken to enhance public resource management and governance, improve the private investment climate, foster competitiveness and strengthen social services.

Directors emphasized that the expected progressive contraction in the oil sector and oil revenues, with the depletion of hydrocarbon reserves over the coming years, lends urgency to the need to diversify the economy and foster environmentally sustainable, non-oil sector growth, in order to ensure that adequate resources will be available to address

the key challenges facing the country: reducing poverty and improving social conditions, especially in rural areas. Directors encouraged the authorities to make bolder efforts to strengthen the medium-term fiscal position and cut debt, and to persist with structural reforms, including further privatization and civil service downsizing, and improving the investment climate.

Directors welcomed the authorities' medium-term program, which includes an ambitious fiscal adjustment and additional structural reforms aimed at attracting private investment and promoting economic diversification. They noted that the budget for 2003, which aims appropriately at a sharp reduction in the non-oil primary deficit, remains broadly on track. They commended the efforts to strengthen fiscal management and improve revenue collection. Directors welcomed the clearance of non-reschedulable debt arrears by end-June 2003 and stressed the need to avoid the re-emergence of arrears in the future.

Directors urged the authorities to lower the government wage bill to bring it into line with a shrinking of oil revenues, and to ensure that adequate resources can be provided to social services and basic infrastructure in support of non-oil sector activities. The wage and civil service reforms currently under way—including streamlining the regime of indemnities, reducing the number of senior staff at the Presidency, in ministries and other institutions, and introducing a merit-based promotion system—should be accelerated. Directors expressed concern about the recent overshooting of the program target for the wage bill and urged the authorities to redouble their efforts to keep the wage bill under control.

Directors welcomed steps taken in the area of structural reform, specifically, the adoption and implementation of the anticorruption legislation and ethics code for government officials, the revamping of the computerized budget information system, the reform of the procurement code, the acceleration of privatizations, and the creation of a one-stop center for investment promotion. Directors nevertheless encouraged the authorities to strengthen the structural content of their program, so as to tackle impediments to growth, improve competitiveness, and enhance the prospects for the non-oil private sector. The overall cost structure of the economy needs to be reduced, basic infrastructure upgraded, governance and transparency improved, in particular in the management of public resources, and a more business-friendly regulatory and legal environment set in place. Directors noted that structural reforms in the forestry sector would help the sector realize its full potential to contribute to economic diversification and the development of rural areas.

Directors observed that the exchange arrangement under the CFA franc monetary zone has served Gabon well. They agreed that the external competitiveness gain following the 1994 devaluation of the CFA franc appears to have been broadly maintained. Directors welcomed Gabon's large contribution to the international reserves of the Bank of Central African States during 2002.

Directors underscored that Gabon's medium-term economic prospects are subject to the risks posed by the continuing heavy debt burden, and that the authorities' program will need to be strengthened further in order to stimulate growth and place debt on a more sustainable path. They considered that the establishment of a solid track record of policy

implementation under the authorities' medium-term program could help mobilize external support for Gabon, including debt relief from bilateral creditors.

Directors noted that the banking system remains sound, and that all banks respect the prudential standards. At the same time, the concentration of lending to a relatively few sectors, including forestry, and the increase in nonperforming loans need to be monitored closely. Directors encouraged the authorities to take steps to develop microfinance institutions for the financing of small-scale initiatives. Directors welcomed the adoption of the Central African Economic and Monetary Union's directive to combat money laundering and the financing of terrorism, providing for the establishment of national financial intelligence units to administer the relevant regulations. They encouraged the authorities to give high priority to its effective implementation, including by setting in place a legal framework to freeze assets.

Directors welcomed the importance placed by Gabon on the fight against poverty as reflected in the I-PRSP. They encouraged the authorities to proceed with the preparation of the full PRSP in the context of a participatory process which will help identify priority reform areas.

Directors welcomed the preparation of a draft statistics law and Gabon's participation in the General Data Dissemination System. However, they noted that weaknesses persist with regard to the quality and timeliness of balance of payments statistics, and encouraged the authorities to make further progress in this area, including through use of Fund technical assistance.

Directors stressed that a convincing track record of vigorous policy implementation under the staff-monitored program would be a precondition for the resumption of Fund financial support to Gabon. In that vein, they encouraged the authorities to continue to deal rapidly and forcefully with any emerging program slippages.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board.

Gabon: Selected Economic Indicators

	1999	2000	2001	2002
(Annual changes in percent)				
Domestic economy				
Real GDP growth rate	-8.9	-1.9	2.0	0.0
<i>Of which:</i> oil	-5.6	-10.2	-5.7	-1.4
non-oil	-10.5	2.1	5.3	0.6
Consumer prices (annual average)	-0.7	0.4	2.1	0.2
(In percent of GDP)				
Gross fixed investment	23.9	21.8	25.8	24.4
Gross national savings	18.2	28.0	26.0	25.1
(In millions of U.S. dollars, unless otherwise indicated)				
External sector				
Exports f.o.b.	2,511.2	3,223.1	2,620.3	2,700.9
Imports f.o.b.	-737.9	-806.8	-902.0	-978.9
Current account balance	-267.5	314.0	12.1	32.8
In percent of GDP	-5.7	6.2	0.3	0.7
External public debt (in percent of GDP) ¹	79.6	63.6	63.6	62.6
Real effective exchange rate (in percent change, average)	-4.4	-6.9	1.7	0.7
(In percent of GDP, unless otherwise indicated)				
Financial variables				
Central government revenues	28.3	33.4	34.0	31.5
<i>Of which:</i> non-oil	15.5	10.9	12.2	13.9
Total expenditure	27.2	21.7	30.8	28.1
Primary balance	8.0	17.5	12.0	7.9
Overall balance (commitment basis)	1.2	11.6	3.2	3.5
Change in broad money (in percent)	-2.7	18.0	7.5	5.7

Sources: Gabonese authorities and IMF staff estimates.

¹ Including obligations to the Fund.

INTERNATIONAL MONETARY FUND

GABON

Staff Report for Article IV Consultation and Staff-Monitored Program

Supplementary Information

Prepared by the African Department

(In collaboration with other departments)

Approved by Reinold van Til and Juha Kähkönen

November 5, 2003

1. This supplement reports on budgetary data through end-September 2003 received since the issuance of the staff report. End-September represents the first test date under the staff-monitored program (SMP).
2. **Preliminary data on budgetary execution through September indicate that performance with respect to the overall balance was satisfactory.** Oil revenues exceeded program projections by 1.6 percent of GDP because of higher-than-expected production and oil prices. As specified under the program these revenues were not used for higher spending, and the benchmark on the primary fiscal balance (adjusted for oil revenues) was met (Table 1 and 2).
3. **However, the composition of expenditures and revenues was not in line with the program.** The indicative benchmarks on non-oil revenue and the wage bill were both missed, and the fiscal balance was only preserved because of much lower than projected capital expenditure. At a more detailed level, customs revenue picked up significantly in the third quarter, but still remained below original projections. Indirect tax collections continued to be slightly above target, but company profit tax collections was somewhat weak, partly due to large provisioning by the biggest commercial bank. Overall, non-oil revenue fell short of program projections by CFAF 18 billion (0.5 percent of GDP). On the expenditure side, the wage bill continued to run somewhat above target, as in the first half of the year, reflecting the regularization of advancements following the 2001 civil service census; the measures to curtail the number of senior advisors taken in August have not yet had a financial impact. With other current expenditures on target, total current primary expenditures exceeded the target by CFAF 8 billion (0.3 percent of GDP). Capital expenditures continued to remain well below target (by CFAF 28 billion, or 0.8 percent of GDP), with very low execution of foreign-financed projects. Debt service on nonreschedulable arrears was serviced on a timely manner, but some small payments were not made, pending clarifications of certain obligations with bilateral creditors.

4. **The adjusted end-September target on bank financing to the government was missed by a substantial margin (1.9 percent of GDP).** The failure to meet this benchmark mainly reflected the above mentioned overrun on the wage bill and lower than projected non-oil revenue.¹ In addition, various quasi-government agencies drew down their accounts at the Treasury, forcing the government to rely more on domestic bank financing than projected. While part of this slippage could be reversed by end-year, a deterioration of the government position toward the banking system runs counter to the authorities' medium-term objective of sharply reducing its indebtedness toward the central bank.

5. **While the end-September data do not alter the thrust of the staff appraisal, they underscore the risks and concerns previously expressed, and the need to further strengthen the program before requesting Fund resources.** In particular, the authorities will need to redouble their effort to keep the wage bill under control, and boost non-oil revenue to ensure that the planned fiscal adjustment is achieved in a manner compatible with ensuring growth and poverty reduction. Actions to address the slippages observed under the SMP, as well as measures to strengthen structural reform, will be necessary for staff to support any future request for Fund resources.

¹ In contrast the benchmark on the fiscal balance, this was not offset by the lower than projected investment expenditure as the latter was associated with lower foreign financing.

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

	2002 Dec. Est.	2003						
		Mar. Target	Est.	Jun. Target	Est.	Sep. Prog.	Est.	Dec. Prog.
Benchmarks								
Ceiling on the net claims of the banking system on the government 2/	-51.5	3.4		-5.3		8.8		7.1
Adjusted target 2/	...	35.8	-17.2	-31.5	-4.4	-41.3	23.8	
Ceiling on the contracting or guaranteeing of new nonconcessional external debt with maturity of over 1 year by the government 3/ 4/	17.7	42.5	0.9	42.5	0.9	32.5	2.1	32.5
Ceiling on outstanding stock of new nonconcessional external debt with original maturity of one year or less owed or guaranteed by the government 3/ 4/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Limit on the accumulation of external payments arrears 5/	216.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Floor on the net reduction of domestic payments arrears (reduction "-")	-65.8	-6.3	-64.2	-30.3	-67.8	-59.9	-72.6	-80.0
Floor on the primary fiscal balance (on a payment order basis) 6/	272.0	118.7		246.3		299.8		355.4
Adjusted target 6/	...	133.7	172.4	296.4	296.7	354.8	357.3	
Indicative targets:								
Floor on non-oil government revenue	479.0	112.4	111.6	252.7	237.7	367.5	349.0	503.6
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
Ceiling on total noninterest expenditure on a payments order basis	817.9	151.2	111.0	295.4	278.9	463.2	440.9	678.7
Memorandum items:								
Nonproject external financing disbursements (excluding IMF)	1.9	0.6	0.0	1.3	0.0	1.9	0.5	3.9
External debt service due (excluding IMF)	361.2	84.7	86.9	154.0	156.7	231.1	241.7	301.7
Domestic debt service due	109.1	39.7	26.4	61.2	53.8	78.6	74.6	89.3
Oil revenue	609.0	156.9	171.8	287.8	337.8	393.7	448.7	526.6
Rescheduling of external debt 7/	0.0	46.5	0.0	77.7	0.0	125.5	0.0	156.2
Privatization proceeds	1.8	1.0	1.0	1.0	1.0	1.0	1.0	1.0

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/ 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 (CIRRs).

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

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

6/ 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).

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

Table 2. Gabon: Fiscal Operations of the Central Government, 2001-04

(In billions of CFA francs, unless otherwise indicated)

	2001		2002		Quarterly Projections 1/									
	Est. 09/2002	Budget law 6/7/02	Est.	Dec.	2003				2004					
					Mar. Proj.	Est.	Jun. Proj.	Est.	Sept. Proj.	Est.	Dec. Proj.	Mar.	Jun.	Est.	Dec.
Total revenue and grants	1,173.6	999.6	1,089.9	269.9	283.4	541.7	575.6	763.0	798.2	1,034.1	244.1	494.1	714.3	964.9
Revenue	1,173.6	997.7	1,088.0	269.3	283.4	540.5	575.6	761.1	797.7	1,030.2	242.9	491.6	710.5	958.5
Oil revenue	752.9	510.0	609.0	156.9	171.8	287.8	337.8	393.7	448.7	526.6	126.8	230.3	330.7	431.2
Non-oil revenue	420.7	487.7	479.0	112.4	111.6	252.7	237.7	367.5	349.0	503.6	116.0	261.4	379.8	527.3
Direct taxes	96.6	131.3	134.2	32.8	33.0	79.2	70.0	105.1	88.8	136.5	34.6	83.6	111.0	144.1
Indirect taxes	70.8	99.1	83.5	21.2	27.9	44.7	60.3	69.3	82.5	113.8	22.6	47.6	73.7	118.9
Taxes on international trade	218.4	225.0	210.0	46.1	40.3	104.2	86.6	156.1	145.5	204.0	48.3	109.1	163.4	222.0
Import taxes	187.8	192.0	180.9	40.6	33.1	90.5	74.1	136.7	123.4	176.7	42.5	94.6	142.8	193.0
Export taxes	30.6	33.0	29.1	5.5	7.2	13.7	12.5	19.4	22.1	27.3	5.8	14.5	20.6	29.0
Other revenue	35.0	32.3	51.3	12.3	10.4	24.7	20.8	37.0	32.2	49.3	10.6	21.1	31.7	42.3
Foreign grants	0.0	1.9	1.9	0.6	0.0	1.3	0.0	1.9	0.5	3.9	1.3	2.5	3.8	6.4
Total expenditure and net lending	1,061.9	843.2	969.2	193.0	152.6	368.2	349.1	568.5	547.5	815.9	203.4	392.0	601.6	842.1
Total expenditure, excluding interest payments	758.2	685.4	817.9	151.2	111.0	295.4	278.9	463.2	440.9	678.7	151.7	305.1	470.8	685.6
Current expenditure	860.4	650.3	687.4	159.7	136.7	288.5	284.9	430.8	441.0	603.9	170.5	304.4	459.2	622.9
Wages and salaries	219.6	217.0	220.6	56.7	58.6	107.9	112.4	162.4	170.4	223.0	56.7	107.9	162.4	218.0
Purchases of goods and services	177.0	148.6	156.7	31.7	18.5	57.1	55.3	90.0	89.9	126.8	33.2	59.7	94.1	132.6
Water and electricity	0.0	10.2	14.6	2.8	2.7	5.6	5.4	8.5	8.1	11.2	2.8	5.6	8.5	11.2
Telephone services 2/	0.0	32.3	32.5	2.4	3.4	4.7	5.1	7.2	7.3	9.5	2.4	4.7	7.2	9.5
Other (petrol, transport, travel, etc.)	0.0	106.1	109.6	26.5	12.4	46.7	44.8	74.3	74.5	106.1	28.0	49.3	78.4	111.9
Transfers and subsidies	160.1	126.9	158.8	29.5	18.0	50.7	47.1	73.1	74.1	116.9	29.0	49.8	71.9	115.9
Public enterprises	0.0	30.6	38.3	4.6	4.9	9.2	14.4	12.9	29.5	18.5	4.1	8.3	11.6	16.6
Other	0.0	96.3	120.5	24.9	13.1	41.5	32.7	60.2	44.6	98.4	24.8	41.6	60.3	99.4
Interest payments	303.7	157.8	151.3	41.8	41.6	72.8	70.2	105.3	106.6	137.2	51.8	87.0	130.8	156.5
Domestic	34.3	29.3	33.7	7.4	7.0	14.3	13.6	21.0	19.7	27.1	7.4	10.0	18.0	18.5
External	269.4	128.5	117.6	34.4	34.6	58.5	56.6	84.3	86.9	110.1	44.4	77.0	112.8	138.0
Capital expenditure	163.6	161.9	136.6	24.8	3.6	56.9	43.2	100.7	72.8	155.0	24.7	65.8	106.9	164.5
Net lending (including equity participation) 3/	37.9	31.0	17.1	0.0	0.0	0.0	0.3	0.0	0.3	0.0	0.0	0.0	0.0	0.0
Restructuring cost of public enterprises	0.0	0.0	67.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Air Gabon (suppliers debt taken over)	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
National Social Security Fund (CNSS) (debt to CNSS taken over)	0.0	0.0	36.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Road Maintenance Fund (FER) and special funds	0.0	0.0	60.5	8.6	12.3	22.8	20.7	37.1	33.5	57.0	8.2	21.9	35.5	54.7
Overall balance (on a commitment basis)	111.7	156.4	120.7	76.9	130.8	173.5	226.5	194.5	250.7	218.3	40.7	102.1	112.6	122.8
Primary balance (on a commitment basis)	415.4	314.2	272.0	118.7	172.4	246.3	296.7	299.8	357.3	355.4	92.4	189.1	243.4	279.3
Change in payments arrears	54.7	-76.4	1.1	-13.9	-46.6	-45.4	-66.5	-69.6	-60.3	-83.4	-6.3	-155.0	-160.1	-174.8
External (on interest payments)	26.2	-28.9	81.1	-13.1	18.3	-26.2	6.6	-26.2	20.2	-25.5	0.0	-142.2	-142.2	-142.2
Domestic	28.5	-47.5	-79.9	-0.8	-64.9	-19.2	-73.1	-43.3	-80.6	-57.9	-6.3	-12.8	-17.9	-32.6
Arrears on interest on domestic debt	2.3	-2.3	1.5	-0.8	0.9	-1.7	1.5	-2.5	2.7	-3.3	0.0	0.0	0.0	0.0
Float (unpaid payment orders at the treasury)	26.8	-45.2	-53.8	0.0	-59.5	-15.0	-72.8	-37.5	-64.3	-46.7	-5.1	-10.3	-14.5	-27.6
Other float at the treasury 4/	0.6	0.0	-22.5	0.0	-5.7	0.0	-0.2	0.0	-16.5	-2.9	0.0	0.0	0.0	0.0
Compensation for political violence	-1.2	0.0	-5.1	0.0	-0.6	-2.5	-1.7	-3.3	-2.5	-5.0	-1.3	-2.5	-3.3	-5.0
Overall balance (on a cash basis)	166.3	80.0	121.8	63.0	84.1	128.1	160.0	124.9	190.4	134.9	34.3	-52.9	-47.5	-52.0
Financing	-166.3	-270.0	-121.8	-109.5	-84.1	-205.8	-160.0	-250.3	-190.4	-291.1	-82.2	-367.4	-436.5	-479.9
External (net)	-213.1	-219.4	-76.9	-78.3	-57.1	-147.0	-105.0	-187.6	-122.2	-205.6	-51.6	-278.5	-322.2	-331.6
Drawings	9.3	40.0	17.7	6.1	0.9	16.8	0.9	27.4	2.1	32.5	5.1	29.3	38.6	82.0
Project financing	9.3	40.0	17.7	6.1	0.9	16.8	0.9	27.4	2.1	32.5	5.1	14.3	23.6	37.0
Program financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	15.0	15.0	45.0
Amortization	-309.7	-228.4	-243.6	-50.3	-52.3	-95.5	-100.1	-146.8	-154.8	-191.7	-54.7	-107.7	-160.6	-207.5
Arrears on principal (reduction -)	35.0	-31.0	135.8	-34.1	-5.7	-68.2	-5.8	-68.2	25.4	-56.5	0.0	-198.1	-198.1	-210.1
Foreign exchange effect on arrears/unexplained external debt payments	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 rescheduling	29.4	0.0	1.3	0.0	0.0	0.0	0.0	0.0	0.0	2.0	-2.0	-2.0	-2.0	-2.0
Debt cancellation	17.0	0.0	11.9	0.0	0.0	0.0	0.0	0.0	5.1	8.0	0.0	0.0	0.0	6.0
Advance external debt payments	5.9	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

Table 2. Gabon: Fiscal Operations of the Central Government, 2001-04

(In billions of CFA francs, unless otherwise indicated)

	2001		2002		Quarterly Projections 1/									
	Est. 09/2002	Budget law 6/7/02	Est.	Dec.	2003				2004					
					Mar. Proj.	Est.	Jun. Proj.	Est.	Sept. Proj.	Est.	Dec. Proj.	Mar.	Jun.	Sept.	Dec.
Domestic (net)	46.7	-50.6	-44.9	-31.2	-27.1	-58.8	-55.0	-62.7	-68.2	-85.4	-30.5	-88.9	-114.3	-148.3
Banking system	144.7	-34.1	-51.5	3.4	-17.2	-5.3	-4.4	8.8	23.8	7.1	-11.7	-39.4	-54.5	-93.0
Bank of Central African States (BEAC)	109.5	-25.6	-92.9	6.7	-1.7	1.4	36.7	18.8	36.5	20.5	-8.4	-27.4	-41.5	-79.3
Commercial banks	35.2	-8.5	41.4	-3.3	-15.5	-6.7	-41.1	-10.0	-12.7	-13.4	-3.3	-11.9	-13.0	-13.7
Nonbank sources	-98.0	-16.5	6.6	-34.6	-9.8	-53.6	-50.6	-71.5	-92.0	-92.6	-18.8	-49.5	-59.8	-55.3
Domestic debt	-80.7	-59.2	-75.4	-32.3	-19.3	-46.9	-40.1	-57.6	-54.9	-62.2	-15.7	-43.3	-50.5	-62.9
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 (DGCP)	-72.9	-54.2	-69.1	-31.0	-19.3	-44.4	-39.6	-56.7	-52.4	-55.2	-13.2	-38.3	-43.0	-52.9
Securitized commercial agreements	-66.9	-36.5	-36.0	-5.5	-5.5	-11.0	-11.0	-15.4	-15.4	-19.8	-4.1	-12.0	-13.4	-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) 5/	-5.9	-17.7	-33.1	-25.5	-13.8	-33.4	-28.7	-41.3	-37.0	-35.4	-9.2	-26.2	-29.5	-36.6
Regularization of civil servants' salaries (rappets)	-7.8	-5.0	-6.3	-1.3	0.0	-2.5	-0.5	-1.0	-2.5	-7.0	-2.5	-5.0	-7.5	-10.0
Change in domestic arrears (on principal, - reduction)	6.1	-10.2	14.1	-5.5	0.7	-11.1	5.4	-16.6	7.9	-22.1	0.0	0.0	0.0	0.0
Restructuring cost 6/	-5.6	-36.0	47.9	-0.8	-1.9	-1.6	-2.0	-2.5	-3.7	-11.3	-3.1	-6.3	-9.4	-9.8
Social costs	-5.6	-16.7	-17.6	-0.8	-1.9	-1.6	-2.0	-2.5	-3.7	-11.3	-3.1	-6.3	-9.4	-9.8
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	...	-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
Gabon Telecom/ Office des Postes et Télécommunication (OPTR) financing	...	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	...	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	1.0	1.0	0.0	0.0	0.0	17.4
Other	-21.2	-5.0	-21.4	3.0	9.7	5.0	-14.8	4.2	-42.3	2.0	0.0	0.0	0.0	0.0
Treasury correspondents, incl. pensions	1.8	0.0	1.4	2.0	-5.4	3.0	-12.6	1.2	-22.5	1.0	0.0	0.0	0.0	0.0
Local authorities 7/	-6.2	0.0	-7.9	1.0	2.3	2.0	2.6	3.0	-5.0	1.0	0.0	0.0	0.0	0.0
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
Checks written but not cashed at treasury	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
Errors and omissions	-16.8	-5.0	-14.9	0.0	12.8	0.0	-4.8	0.0	-14.8	0.0	0.0	0.0	0.0	0.0
Financing gap before use of Fund resources 1/	0.0	190.0	0.0	46.5	0.0	77.7	0.0	125.5	0.0	156.2	47.8	420.3	483.9	531.8
Financing sources	...	...	...	46.5	...	77.7	...	125.5	...	156.2	39.3	403.3	458.4	497.8
Reschedulable debt service	...	...	...	46.5	...	77.7	...	125.5	...	156.2	39.3	403.3	458.4	497.8
Use of Fund resources	...	...	...	0.0	...	0.0	...	0.0	...	0.0	0.0	0.0	0.0	0.0
Memorandum items:														
Primary fiscal balance (in percent of GDP)	12.0	9.5	7.9	3.6	5.3	7.6	9.1	9.2	11.0	10.9	2.8	5.7	7.3	8.4
Non-oil primary balance (in percent of non-oil GDP)	-16.8	-9.4	-16.8	-1.8	0.0	-2.0	-2.0	-4.5	-4.4	-8.2	-1.6	-1.9	-4.0	-6.9
Stock of unpaid payments orders at the treasury	177.6	104.3	123.8	123.8	64.3	108.8	51.0	86.3	59.5	77.1	72.0	66.8	62.6	49.5

Sources: Gabonese authorities; and staff estimates and projections.

1/ During 2003, the government pays end-2002 nonreschedulable arrears (CFAF 82 billion) and accumulates arrears on reschedulable current maturities (CFAF 156 billion). The stock of reschedulable arrears at end-2003 is projected at CFAF 340 billion. This stock, together with the reschedulable current maturities in 2004 (CFAF 158 billion), is projected to be rescheduled in 2004.

2/ 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.

3/ 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).

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

5/ Including old debt repayments to Société d'Eau et d'Energie 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.

6/ 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.

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

**Statement by Damian Ondo Mañe, Executive Director for Gabon
November 10, 2003**

My Gabonese authorities would like to thank the staff for a very comprehensive report on the Gabonese economy. The report describes well the challenges that the economy faces, the efforts being undertaken by the authorities and the policy requirements for the medium term. My authorities highly appreciate the cordial atmosphere in which the discussions have taken place, and which have been ongoing over the past year, and the advice provided by the staff, as well as their assistance in putting in place a comprehensive medium-term program of economic and structural policies to address the many challenges facing the economy, including the declining oil production and the high external debt.

The previous Fund-supported program went off track in 2001 due to implementation weaknesses. However, since January 2002 the government strengthened its efforts and committed itself to undertake major reforms and to implement policies aimed at addressing those challenges.

As a first step, and with staff's assistance, my authorities took measures to address the main causes of the slippages in the past. These efforts were focused on improving governance, reforming tax and customs administrations, strengthening the Budget and Treasury Departments, restructuring public enterprises, and creating an environment conducive to private sector development. The government also adopted an austerity Budget for 2003. In consultation with staff, and in order to establish a track record, budgetary targets were set and observed for the first part of 2003. This included the repayment of all external debt-service arrears to multilateral institutions, as well as arrears to post-cut off date debt and debt service under the last Paris Club rescheduling owed to bilateral creditors. The authorities' efforts were further strengthened in mid-2003 in the context of a Staff Monitored Program. All the prior actions measures have been implemented, and these actions are consistent with the medium-term framework that has been established. At the same time the authorities have been taking actions to build consensus at the national level for the reform program, and my authorities are hoping that they can receive the full support of the international community, including the Fund in its implementation.

I. Economic performance in 2002 and 2003

During 2002, although real GDP growth was flat, it was better than the projected—0.6 percent, as the decline in oil output was less than had been projected due to the oil companies' efforts to exploit marginal fields. For 2003, real economic growth rate is expected to be higher than forecast as oil production and oil prices have been above the assumptions retained in the budget, and the declining trend in the forestry sector is being reversed. An important objective of my authorities is the broadening of the non-oil sector, and in this context, it is worth noting that the non-oil sector after growing by 0.6 percent in 2002 in real terms is projected to grow further over the medium term. Inflation has been kept under 2 percent, and the current account balance is likely to register a small deficit in 2003, following a small surplus in 2002.

Fiscal policy

Since 2002, the government has been progressively restoring fiscal discipline. The 2002 fiscal year even recorded oil revenues surpluses which the authorities decided to put aside in the Fund for Future Generations located at the regional Central Bank. The fiscal consolidation efforts were strengthened in 2003 and for the first 9 months of the year, budgetary execution was broadly in line with the targets set in consultation with Fund staff. This achievement reflects a tighter control of expenditures thanks to a better monitoring of budget execution and the full effects of numerous measures implemented the previous year aimed at improving revenue collection and spending processes, as well as increasing non-oil revenue. However, while fiscal targets have been met, end-June target for the government position vis-à-vis the banking system was missed due to larger payments of domestic arrears.

For 2003 as a whole, the fiscal target is a primary surplus of 10.9 percent of GDP. It is an ambitious target but it is also indicative of the determination of the authorities to strengthen budgetary management. This fiscal surplus target should be assessed in the context of declining oil revenue from 21.8 percent of GDP in 2001 to 16.2 percent of GDP in 2003. To achieve this surplus, the authorities have taken measures which have reduced current expenditure from 25 percent of GDP in 2001 to 18.5 percent in 2003, and non-oil revenue has increased from 12.2 percent of GDP in 2001 to 15.5 percent in 2003. As noted above, the authorities are using a large part of this surplus to meet external overdue obligations.

The measures adopted in 2003 have included, among others, increases in beverage and tobacco excise taxes, increases in area taxes and stumpage fees in the forestry sector, and a rise in the domestic consumption tax on fuel. Administrative measures were also taken. These included the strengthening of customs procedures, stepping up of personal income tax audits, tax audits of large companies, and increased efforts to collect tax arrears. Furthermore, the government has eliminated a number of exemptions granted to construction companies and agribusinesses. The government has also taken steps to reduce public consumption spending and to contain the wage bill, and is rigorously controlling civil service staffing levels. However, consistent with the efforts to reduce poverty, the authorities raised capital spending on health and education to 0.7 percent of GDP in 2003. Measures have also been taken to control and monitor capital expenditure.

Structural reforms

Since 2002, the government has been strengthening its efforts to enhance fiscal management and to build institutional capacity for program implementation as well as to improve governance, restructure public enterprises and promote private sector development. Box 3 of the staff report gives a non exhaustive list of the measures implemented. The implementation of reform measures has been in line with the timetable defined with the staff.

In the **fiscal sector**, the budgetary execution Integrated Information System (SII), formerly called Crystal, was reactivated in early 2003. Several measures to contain expenditures are being carried out including the reduction of the number of high-level advisory positions in the civil service to contain the wage bill. The budget classification was completed and has

been the basis for the 2004 budget. On the revenue side, the audits of the oil companies were completed in September 2002 and an action plan to implement the resulting recommendations is being carried out. A new General Directorate of Taxes has also been created as a result of the merger of two general directorates and forestry taxes have been revised.

Concerning **governance**, laws to combat illicit enrichment were adopted by the Parliament in 2002 and promulgated in May 2003. A commission to combat illicit enrichment has been created in 2002 and its members were appointed in June 2003. The Commission subsequently participated in a seminar organized with the assistance of the Fund's Legal Department on this issue. The new procurement code was adopted and a General Directorate of Public Procurement was created.

Regarding the **improvement of the business climate**, a one-stop center has been set up to facilitate procedures and reduce the delays for the creation of businesses. Moreover, the significant efforts have been made in the recent past to improve the functioning of judicial system and legal environment. In particular, Gabon has adopted the Uniform Acts of the Organization for the Harmonization of Law in Africa (OHADA).

The **privatization process** is progressing, although it has experienced some delays. In the agricultural sector, the authorities are determined to restructure the agribusiness enterprises with a view to their privatization. Thus, as regards the palm oil company, AGROGABON, and the rubber production company HEVEGAB, following unsuccessful bids, temporary administrators have been appointed with the task of launching tenders for privatization, while rehabilitating the processing plants. The tender for privatization of HEVEGAB was launched in September 2003. The privatization of GABON TELECOM has been delayed as investors were more interested in a management contract than in taking over the company. Taking into account investors' sentiments, a new strategy has been defined and tenders have been launched in June 2003 for the sale of controlling shares, coupled with a management contract. A reorientation of the restructuring strategy for AIR GABON has been done in partnership with a major airline company. A new financial manager has been appointed following the tenders launched worldwide.

Within the framework of the ongoing reform of the National Social Security Fund (CNSS) and with the assistance of the ILO and the World Bank, the government has launched tenders for the privatization of the management of the three CNSS' hospitals in July 2003.

The government recognizes the importance of a strong **financial sector** in the development of the Gabonese economy. In this context, it is implementing measures to deepen the sector and maintain its soundness. The regional banking commission has increased the number of inspectors and more focus will be placed on risk diversification. Regulations establishing operating conditions for microfinance organizations have been adopted, and the creation of a network of mutual savings and loan institutions in rural areas has also been undertaken.

My authorities are very grateful for the **technical assistance** provided by the Fund in the fiscal, legal statistical and policy management areas. Fund assistance has proven to be useful

as it has enabled the identification of weaknesses and helped in designing the solutions to address them.

II. The Debt Situation

Gabon's debt situation is very difficult. The external debt to GDP ratio stood at about 63 percent in 2002, and was over 108 percent of export receipts. The external-debt-service (before rescheduling) burden is very heavy and absorbs about 34 percent of government revenue. With oil exports projected to decline rapidly in the coming years, this debt burden will likely increase. Despite the strong fiscal adjustment effort of the authorities to develop a large primary surplus, this effort is not enough to cover the financing gap, unless it is accompanied by a rescheduling of debt obligations from bilateral creditors. Rescheduling at appropriately concessional terms will support the authorities' efforts at diversification and in the fight against poverty, which, as noted by the staff, is very similar to HIPC's.

III. I-PRSP

In view of the high level of poverty in the country, the Government has made poverty reduction a central part of its economic strategy over the medium term. This has been translated into the preparation of an I-PRSP in consultation with many stakeholders. The I-PRSP has been adopted by the government and is consistent with the *Loi de Développement et d'Aménagement du Territoire* (LDAT) that has 7-year horizon period. In the I-PRSP, the authorities identify the areas that will receive attention, and these include education, health, vocational training and agriculture, among others.

The I-PRSP describes the consultative process, the depth of poverty and outlines the strategy to address the poverty issue and identifies the sources of growth and employment creation. It also outlines the strategy that will be pursued to improve the education level and health services. It explains clearly that the efforts of the authorities will focus on consolidating macroeconomic equilibria, diversifying the economy, and developing human resources.

On the basis of comments by stakeholders and partners, the authorities will develop a full PRSP which they hope will be ready by the middle of next year. Moreover, the authorities have launched since 2002 a revolving investment program within the country. This program aims at annually investing in two different provinces in the renovation and the building of social infrastructures such as roads, schools and health centers.

IV. Medium-term Outlook, Policies and Objectives

Over the next years, my authorities will pursue steadfastly their adjustment efforts already started, and address the increasing social needs and promote economic diversification through the implementation of a coordinated set of policies. In their LDAT, my authorities identify forestry, tourism, fisheries and agro-industry as non-oil sectors where there is a potential for growth. The non-oil sector is projected to average a growth rate of 4 per cent per annum during 2004-06 fuelled by higher investment and an improvement in the business climate. The average annual inflation is expected to be around 2 percent. With oil output

projected to fall by one-third in that period, the external current account balance is projected to shift from a surplus of 0.7 percent of GDP in 2002 to a deficit of 5.5 percent in 2006.

A major effort will be focused on fiscal consolidation, which will require an even greater mobilization of non-oil budgetary revenue and more efficient management of oil revenue. Nonpriority expenditure will be reduced and the wage bill will be more rigorously controlled. The measures that the authorities are introducing are expected to offset partially the decline in oil revenue. As oil revenue declines from 17.7 percent of GDP in 2002 to 8.9 percent in 2006, non-oil revenue is projected to increase from 13.9 percent of GDP to 18.1 percent, so that by 2006, government revenue should remain around 27 percent of GDP, compared to 31.5 percent in 2002. The authorities will also take strong measures to reduce expenditure on goods and services and transfers. As a result primary current expenditure will be reduced from 19.7 percent of GDP in 2002 to 16 percent in 2006, while capital expenditure will be stabilized at around 5 percent of GDP.

V. Policies for 2004

Fiscal policy

Fiscal consolidation will remain the cornerstone of my authorities' adjustment efforts in 2004 with the authorities continuing to enhance the effectiveness and transparency of budget management. Non-oil revenue is projected to increase to 15.9 percent of GDP on the basis of measures already taken in 2003, and a further strengthening of tax administration and the effective implementation of new tax provisions. In this context a Fund FAD Technical Assistance mission is presently in Libreville helping the authorities to strengthen tax administration. Primary expenditure is targeted to decline to 20.7 percent of GDP, as the authorities continue to implement measures to contain and reduce outlays. As a result, the primary surplus is projected at 8.4 percent of GDP, which will allow for a further reduction of the public debt-to-GDP ratio. The authorities, however, expect that the reduction in non-priority current expenditure will allow for increases in the outlays for the social sector and economic infrastructure.

Structural reforms

The reform agenda comprises of measures to improve governance, facilitate economic diversification and combat poverty. Those consist of accelerating and completing the **civil service reform**, notably the preparation of new organization charts to streamline cumbersome government structure and the computerized civil service management system to ensure consistency between the payroll and the civil service roster. Likewise, the **privatization program** will be pursued with the expected sale of Gabon Telecom, HEVEGAB and AGROGABON in 2004.

As regards **governance**, the government will finalize the decree on the wealth declaration by public officials, for which it has benefited from Fund T/A, and adopt the draft ethics code for government officials currently under preparation. The 2004 Budget includes adequate

provisions for the operations of the Commission Against Illicit Enrichment and the Commission will publish quarterly and annual reports on its activities.

In order to stimulate the growth in the non-oil economy, the government will continue to take steps to **improve the business climate**, promote competition and create adequate infrastructure. To this aim, it will give priority to sectoral infrastructure program such as the improvement of the road network and the rehabilitation of the ports in the context of the Priority Action Program for Urban Sector and Transport (PAPSUT) supported by foreign lenders and donors, and improvement of telecommunication services. The government will also improve the operation of the one-stop center for investors. In coordination with the Foreign Investment Advisory Services (FIAS) of the IFC, the World Bank will carry out and complete an analysis of the impediments to investing in Gabon. Meanwhile, the government will abolish the General Directorate of Price Controls by end-December 2003 and will create a General Directorate of Competition and Consumption. It will also remove all remaining import surtaxes. On the judicial front, further mechanisms to facilitate recourse to arbitration as a means of resolving commercial disputes will be established over time.

Monetary policy and financial sector issues

Regional monetary policy will continue to be pursued in a manner consistent with the fixed exchange rate regime. Fiscal consolidation during 2003-06 will reduce the need for bank lending to the government and will allow for an expansion in bank credit to the private sector in line with the projected nominal GDP growth of the non-oil sector. The regional commission COBAC will continue to monitor the developments in the banking system in Gabon, which remains sound.

VI. Staff Monitored Program

As noted above and described in the staff report, the authorities are implementing an SMP that covers the period September-December 2003. At end-September, the overall fiscal balance was met. However, there were slight differences from the program, as regards revenue and expenditure. While indirect tax collections were running above targets, the overall non-oil revenue fell short of program, mainly due to lower than projected non-oil sector growth. As regards the shortfall in company profit taxes, this was mainly due to the large provisioning by the biggest commercial bank, in compliance with banking laws in the context of strengthening financial stability. Oil revenues exceeded program projections, but the excess revenue will not be used to finance higher expenditure. On the expenditure side, outlays for the wage bill were slightly higher than programmed because of the regularization of advancements following the 2001 civil service census. These regularizations are consistent with the ongoing reforms. The measures to curtail the number of special advisors were taken in August, but because of the need to comply with labor laws, the budgetary savings have not been felt yet. All other current expenditures were on target, and debt service on non-reschedulable arrears was serviced on a timely manner, except for some small payments on which clarifications from creditors are required. On the larger than programmed bank financing to the government, it was due also to the lower than projected non-oil revenue, and the drawing down by various quasi-government agencies of their accounts at Treasury.

The authorities do not expect this situation to continue, and are confident that the end of year target will be achieved.

Although my authorities recognize that minor deviations occurred as regards indicative fiscal targets, they would also point out that they met the September fiscal benchmarks, and that they have fully implemented the policy measures. My authorities will continue to monitor closely the revenue and expenditures performance, and will take any additional measure deemed necessary to keep the program on track. In addition to the pursuit of adjustment policies in the fiscal sector and of the reform agenda as described above, the government has adopted a draft budget law for 2004 based on the new budget classification system, in which budget of the road fund and adequate operational resources for the anti-corruption commission has been integrated. Together with the 2004 draft budget law, a report on the execution of the investment for the three first quarters of 2003 will be prepared.

VII. Conclusion

While recognizing that program implementation in the past has been mixed, since 2002 the government, in close collaboration with the staff, has been implementing a comprehensive program of reforms that addresses the many challenges that the country faces. These challenges include declining oil production, an excessive debt level, and the increase in the incidence of poverty. The program of economic and financial adjustment that they are following and the encouraging results that they are obtaining, in particular, towards macroeconomic stabilization, are strong testimony to that effort. The significant improvement in the fiscal sector and the deepening of reforms, as well as the broadening of the non-oil sector that is taking place indicate well that the authorities' strategy are appropriate. The adjustment program that they have followed has helped to set a strong foundation for further reforms. But the deepening of these reforms and the replacement of the oil and government sectors by the non-oil sector will take time and will require large amount of resources. Therefore, my Gabonese authorities are requesting the support of the international community for their efforts. They look to the Paris Club for further debt rescheduling and to the Fund for a medium-term program, which they view as most appropriate for the large structural reforms that they are committed to undertake.

Finally, I would like once again to ask my colleagues for their full support for my authorities' efforts as well as for the request for a Fund-supported program that could start early next year.