INTERNATIONAL MONETARY FUND

IMF Country Report No. 16/86

# GABON

March 2016

## 2015 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; 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 2015 Article IV consultation with Gabon, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its February 19, 2016 consideration of the staff report that concluded the Article IV consultation with Gabon.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on February 19, 2016 following discussions that ended on December 10, 2015 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 February 5, 2016.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staff of the IMF.
- A **Statement by the Executive Director** for Gabon.

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

Selected Issues

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February 26, 2016

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Washington, D. C. 20431 USA

# IMF Executive Board Concludes Article IV Consultation with Gabon[1]

On February 19, 2016, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Gabon.

Gabon's economy is facing mounting headwinds. Economic activity benefited from a one-off boost in oil production in 2015, due to the introduction of new oil fields and productivity improvements, which are expected to help maintain overall growth around 4 percent in 2015. However, the slowdown in non-oil economy activity continued, led by construction, transport, commerce, and services. An important factor in slowing non-oil activity are falling oil prices and oil-related revenue, which is reducing aggregate demand and spurring a large fiscal consolidation. Even so, the strains on the budget are intensifying, leading to a shift of the fiscal balance (commitment basis) from a surplus of 2.5 percent of GDP in 2014 to a deficit of 2.3 percent in 2015, a rise in public debt above the government's self-imposed ceiling of a debt-to-GDP ratio of 35 percent, and a decline in government deposits and foreign reserves. This substantial terms-of-trade shock is also impacting the external position, which turned from a surplus of 8.3 percent of GDP in 2014 to a deficit of 1.9 percent in 2015. Consumer price inflation (CPI) has come down sharply over the past year and expected to be about zero percent in 2015.

Gabon's economy remains heavily dependent on oil, and as such the medium-term economic outlook has deteriorated in tandem with weakening prospects for that sector. In 2016, overall growth is expected to decline to 3.2 percent, largely due to declining oil production. Ongoing, large-scale investments in the agricultural sector, especially in cash crops such as palm oil and rubber, are expected to accelerate significantly in 2017–18, could lift growth to around 5 percent in the medium term. Realization of this scenario will depend on sustained progress on Gabon's economic diversification strategy, the *Plan Stratégique Gabon Emergent* (PSGE), which needs to be carefully prioritized given the tight financing constraints posed by the current juncture.

[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.

The main downside risk to the outlook remains weak fiscal adjustment to sharply lower oil prices. In the event of weaker-than-projected performance on oil revenues or government spending, the government would be forced to substantially draw down on its deposit buffer and/or significantly increase borrowing. Other risks concern a stronger-than-expected spillover of the oil price shock to non-oil economic activity (including to the financial sector), a weaker global economy, tightening international financial conditions, as well as persistent fragility at three small distressed state-owned banks.

**Executive Board Assessment**[2]

Directors noted that the low oil price outlook and the secular decline in oil production continue to test Gabon's macroeconomic resilience and weigh on the country's medium-term growth prospects. Directors underscored the critical importance of redoubling efforts to foster economic diversification, continuing fiscal adjustment in response to the oil shock, buttressing financial sector stability, and invigorating structural reform.

Directors stressed the need for stronger efforts to ensure fiscal and external sustainability in the face of lower oil revenue. In this context, they supported the authorities' focus on containing the public wage bill, and commended the recent elimination of diesel and petrol subsidies. They emphasized the importance of prioritizing measures to reverse the recent erosion of the revenue base by curbing tax exemptions and enhancing revenue administration. Other priorities include reducing inefficient spending in favor of productive expenditure, fostering private sector participation in infrastructure projects, and safeguarding social spending. Directors welcomed the ongoing public financial management reforms and encouraged the authorities to adopt the recommendations of recent Fund technical assistance, including strengthening treasury management.

Directors noted that while Gabon's financial system is broadly sound, the weak financial condition of public banks needs to be addressed urgently. They underscored the need for vigilance on macro-financial linkages that could amplify the impact of the oil shock. They recommended close monitoring of nonperforming loans, given the strong links between the oil and non-oil sectors and the large role of government projects in the financial performance of Gabon's banking sector. They also encouraged regional and national authorities to move rapidly to address troubled public banks. Directors highlighted the importance of financial deepening and economic diversification in enhancing the resilience of the financial sector.

Directors emphasized the need to continue to foster diversification and reduce Gabon's vulnerability to oil price fluctuations. In this context, they welcomed the progress the authorities have made in developing the country's infrastructure since embarking on their economic diversification plan in 2010. Given the reduced availability of financing, Directors encouraged

[2] 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. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

reprioritizing the reform agenda. They recommended avoiding revenue-eroding tax holidays and focusing on high-impact infrastructure projects and productivity-boosting structural reforms, including strengthening education and institutions, and increasing labor market flexibility. Directors also encouraged the authorities to promote deeper intraregional integration and trade liberalization in CEMAC.

Directors called for a higher priority on improving the quality and timeliness of macroeconomic data to strengthen surveillance.

It is expected that the next Article IV consultation with Gabon will be held on the standard 12-month cycle.

## Table 1. Gabon: Selected Social and Economic Indicators

| | | | |
|---|---|---|---|
| Population: | 1.8 million | Per capita GDP (2015): | US$ 7,728 |
| Quota: | SDR 154.3 million (equivalent to 0.06 percent of total) | Literacy rate: | 94.7 percent |
| Main products and exports: | Oil, manganese, and processed wood | Poverty rate: | 34.3 percent |
| Key export markets: | USA, China, and European Union | | |

| | 2015<br>Prel. Est. | 2016<br>Proj. | 2017<br>Proj. |
|---|---|---|---|
| **Ouput (percent)** | | | |
| Real GDP growth rate | 4.0 | 3.2 | 4.5 |
| Non-oil GDP growth rate | 4.0 | 5.4 | 6.6 |
| Oil share of overall GDP | 31.6 | 22.7 | 22.1 |
| **Employment (percent)** | | | |
| Unemployment | 28.0 | 29.0 | 29.0 |
| **Prices (percent)** | | | |
| Inflation (Average) | 0.1 | 2.5 | 2.5 |
| **General Government Finances (percent of GDP)** | | | |
| Revenue | 21.4 | 19.3 | 19.7 |
| Expenditure | 23.7 | 25.1 | 24.6 |
| Fiscal Balance | -2.3 | -5.8 | -4.8 |
| Public Debt 1/ | 43.0 | 50.1 | 49.9 |
| **General Government Finances (percent of non-oil GDP)** | | | |
| Revenue and grant | 31.2 | 25.0 | 25.3 |
| Oil | 12.2 | 5.6 | 5.8 |
| Non-oil | 19.0 | 19.4 | 19.5 |
| Expenditure | 34.6 | 32.5 | 31.5 |
| Current | 25.4 | 23.5 | 22.7 |
| Capital | 9.2 | 9.0 | 8.8 |
| Net Lending | 0.0 | 0.0 | 0.0 |
| Non-oil primary balance (commitments basis) | -13.5 | -10.3 | -8.9 |
| Overall balance (commitment basis) | -3.4 | -7.5 | -6.2 |
| Overall balance (cash basis) | -9.0 | -8.8 | -6.2 |
| **Money and Credit** | | | |
| Broad Money (percentage change) | -1.1 | -0.5 | 0.8 |
| Credit to the private sector (percentage change) | -5.3 | 3.1 | 5.1 |
| **Balance of Payments** | | | |
| Current account (percent of GDP) | -1.9 | -9.0 | -7.4 |
| FDI (percent of GDP) | 3.6 | 3.5 | 3.8 |
| Reserves (months of imports) 2/ | 4.9 | 4.2 | 4.0 |
| External Debt (percent of GDP) | 35.6 | 41.2 | 41.3 |

Sources: Gabonese authorities, staff estimates and projections.

1/ Including statutory advances from BEAC.

2/ Reserves of the BEAC in months of CEMAC's imports, excluding intra-CEMAC trade.

INTERNATIONAL MONETARY FUND

# GABON

## STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION

February 5, 2016

## KEY ISSUES

**Context.** The recent collapse in oil prices is a major test to Gabon's macroeconomic resilience. It has substantially worsened the growth outlook, government revenue performance, and the external position. The shock highlights the need to accelerate the implementation of Gabon's plan to diversify its economy (*Plan Stratégique Gabon Emergent*, or PSGE), but also considerably lowers available domestic financing. At the same time, foreign financing has become increasingly costly. The implementation of further policy adjustments will be complicated by the political environment prior to the 2016 elections. As a key member of the CEMAC currency and economic union, Gabon's economic policies have significant regional implications and spillovers.

**Outlook and Risks.** The oil price shock has negatively affected domestic demand and GDP growth in 2015. Some positive momentum is expected in the medium term as non-oil natural resource projects ramp up. The main risk to the outlook remains insufficient fiscal adjustment to weak oil prices that could further deplete fiscal buffers and weaken the external position. Ancillary risks concern a stronger-than-expected spillover of the oil price shock to non-oil economic activity, and persistent fragility at three small distressed state-owned banks.

**Key Challenges.** The discussions centered on the challenge posed by lower oil prices, especially for the budget and the financial sector. Another key issue was how to reassess and reprioritize the government's diversification plan (PSGE) so that it can be sustainably financed. Staff also assessed progress on the implementation of the PSGE and structural reforms, as well as addressing economic data shortcomings.

**Policy Recommendations.** Staff recommended adjusting to the major terms-of-trade shock through fiscal adjustment, mainly by eliminating inefficient and costly tax exemptions and curbing the outsized wage bill, while protecting critical capital and social spending. At the regional level, Gabon should advocate tighter fiscal and monetary policies to ensure continued viability of the monetary union. Prompt corrective actions are needed to arrest the deterioration of the financially weak public banks. The authorities should also undertake structural reforms to promote productivity and export diversification, and redouble ongoing efforts to address major weaknesses in economic statistics.

Approved By
**Anne-Marie Gulde-Wolf (AFR) and Bob Traa (SPR)**

Discussions were held in Libreville from November 30 to December 10, 2015, and completed via video conference on December 18. The mission comprised Messrs. Mlachila (head), Noumon, Orav, Salinas (all AFR), and Gutierrez Garcia (MCM). The mission had constructive discussions with Mr. Daniel Ona Ondo, Prime Minister; Mr. Régis Immongault, Minister of Sustainable Development, Economy, Investment Promotion and Prospective; Mr. Christian Magnagna, Minister of Budget and Public Accounts; Members of the Finance Committees of the National Assembly; and other senior government officials. The mission also exchanged views with representatives of the private sector, civil society, and development partners.

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**TABLES**



**ANNEXES**

# A CHALLENGING ECONOMIC ENVIRONMENT

1. **Despite progress in implementing its transformation plan, Gabon is still oil-dependent and therefore highly vulnerable to the recent oil price shock.** After a decade of lackluster economic growth, in 2010 the government embarked on the *Plan Stratégique Gabon Emergent* (PSGE), which aims to diversify its economy by 2025.[1] In its first phase (2010–14), high oil revenues funded a scaling up of public investment that helped propel overall growth to nearly 6 percent on average, led by construction and services. While there are initial promising signs of diversification, structural transformation is a gradual process, and as of 2014 oil still accounted for roughly 40 percent of GDP, 45 percent of government revenues, and nearly 85 percent of exports. The low oil price outlook and secularly declining oil production will reduce available financing for the second phase of the PSGE (2016–20). As part of the oil-dependent CEMAC monetary union, Gabon's success in adjusting to oil price shocks also hinges on the ability of other member countries to appropriately implement fiscal adjustments and their own diversification agenda.

2. **Economic activity has significantly decelerated in 2015.** Statistical data through September 2015 indicate higher-than-expected oil production (thanks to the introduction of new wells and performance improvements), mining (manganese), and agriculture (due to a large, ongoing international agribusiness joint venture). However, the sharp fall in oil prices has prompted the government to slow capital spending, and oil companies to rein in operating and development expenditures. This reduced domestic demand led to significant contractions in large non-oil sectors, including construction, transportation, commerce, and services. At the same time, broad money and credit to the economy are contracting.

3. **Despite significant fiscal adjustment since the second half of 2014 and delays in the implementation of the capital spending, fiscal buffers are contracting rapidly.** Since 2012, public debt has more than doubled from 20 to 43 percent of GDP (above the 35 percent indicative ceiling of the government), in part due to US$1.5 billion and US$500 million Eurobond issuances in December 2013 and June 2015, respectively.[2] About two-thirds of the increase in the debt-to-GDP ratio since 2014 is due to the depreciation of the CFA franc and the decline in the oil GDP deflator. Moreover, between December 2014 and October 2015, government deposits at the BEAC (net of Eurobond receipts) declined by 57 percent, and gross international reserves by 30 percent. Foreign financing has become increasingly costly, as rating agencies have downgraded the sovereign debt of oil exporters, including Gabon, contributing to a significant increase in spreads in recent months (Figure 1).

4. **Presidential and parliamentary elections are expected in the second half of 2016.** No official election dates have been announced, but the process of electoral list revision began in January 2016. Opposition parties boycotted the 2009 parliamentary elections, and the governing *Parti Démocratique Gabonais* won 113 of the 120 seats in the National Assembly. The run-up to the

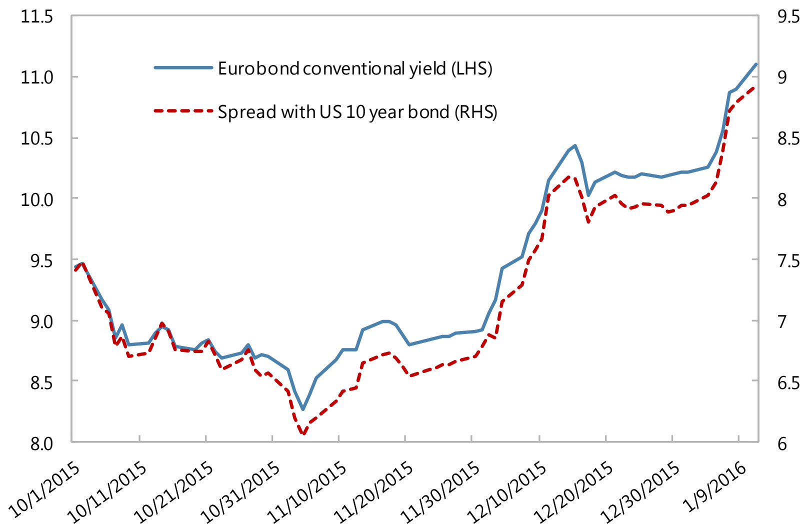
[1] The 2014 Article IV staff report provides more information on the PSGE.

[2] Of the US$1.5 billion, US$610 million was issued for liability management operations.

elections is likely to be accompanied by heightened social and political tensions. As a result, some politically tough economic policy decisions may be delayed.

**Figure 1. Gabon: 2013 Eurobond Issuance**

(in percent)



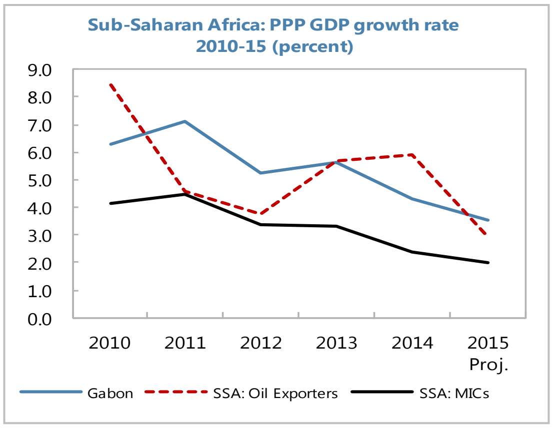

Source: Bloomberg.

# A DETERIORATED OUTLOOK, AND RISKS ARE RISING

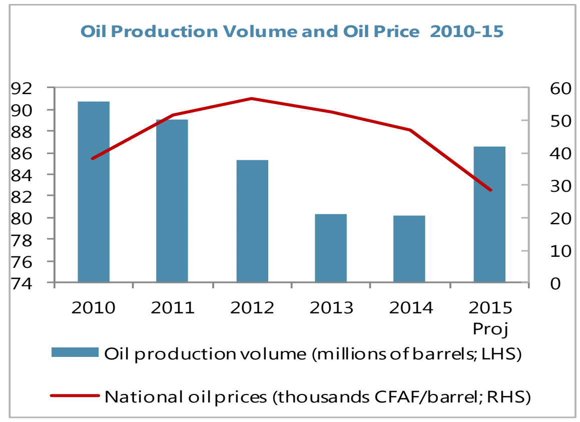
**5. The growth outlook has deteriorated** (Figure 2)**.** In light of a weak performance during the first nine months of the year, the forecast of 2015 GDP growth has been revised down from 4.4 percent to 4.0 percent, driven by a slowdown in non-oil activity (5.8 to 4.0 percent). Inflation is expected to be around zero percent in 2015, much lower than in 2014. Continued weakness in the oil sector is expected to weigh on prospects for oil exploration and government revenue, leading to a further deceleration of overall growth in 2016 to 3.2 percent. A pick-up of growth is expected in 2017–18 as large-scale palm oil and rubber production by Olam International ramps up. However, the negative outlook for the oil sector has led to a downward revision of the overall medium-term growth rate to around 4.5 percent per annum, a decline of more than one percentage point since the 2014 Article IV consultation.

## Figure 2. Gabon: Selected Economic Indicators

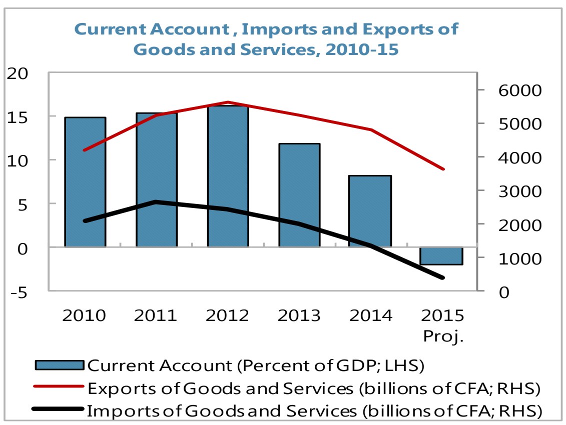
*Growth has significantly decelerated since the 2014 fiscal adjustment and the 2015 oil price shock ...*



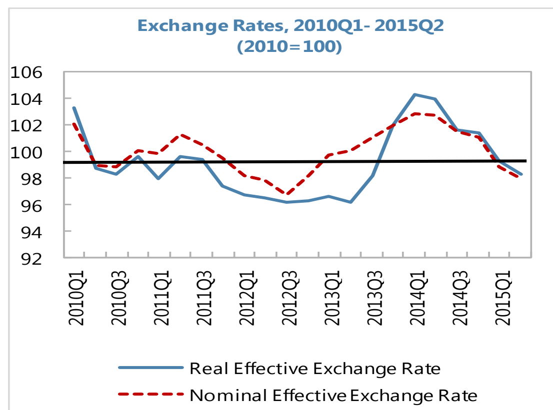

*.......despite an uptick in oil production in 2015.*



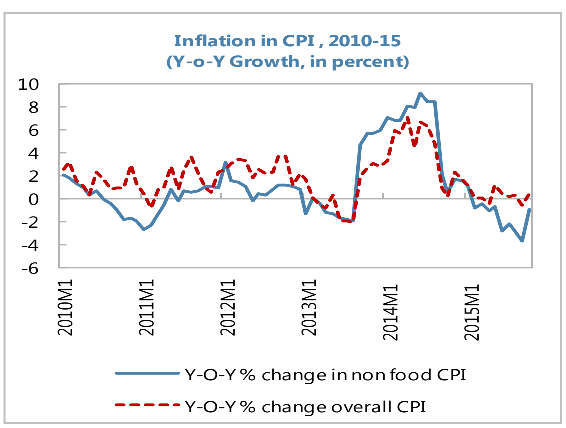

*However, falling oil exports have wiped out the current account surplus.*



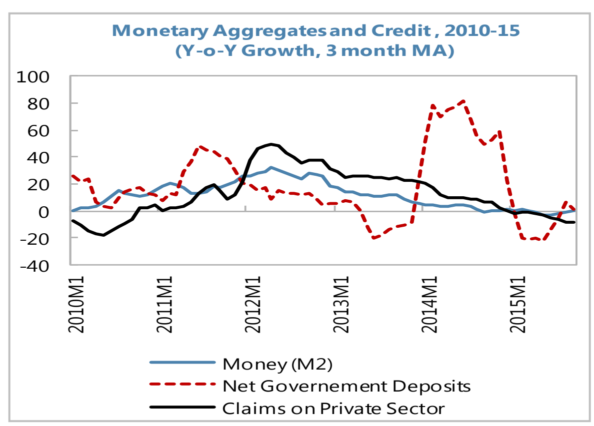

*The nominal effective exchange rate has reversed an earlier appreciation...*




*...while year-on-year inflation has declined with falling energy prices*




*Credit to the economy and M2 are contracting, possibly reflecting an economic deceleration.*




Sources: IMF and Gabonese Authorities.

**6. The main downside risk to the outlook remains insufficient fiscal adjustment to lower oil prices** (Risk Assessment Matrix, Annex I). As seen in Text Table 1, if government spending items were to grow in line with non-oil GDP, or oil prices remain at US$5 per barrel below the current baseline of the IMF's *World Economic Outlook*[3], the government would be forced to deplete available deposits, and significantly increase borrowing and arrears. At the same time, slower global growth and tighter international financing conditions will entail additional headwinds to the Gabonese economy. Ancillary risks concern a stronger-than-expected spillover of the oil price shock to non-oil economic activity (including to the financial sector), as well as persistent fragility at three small distressed state-owned banks, one of which recently experienced severe liquidity problems prompting government intervention.

**7. Several risk scenarios would require further fiscal tightening and, therefore, spending prioritization (Annex I).** Such would be the case if oil prices or non-oil revenues are lower than projected, as well as scenarios that demand unexpected additional spending due to regional insecurity or political turmoil. If the oil price shock or existing problems in public banks were to significantly affect banking stability, the national and regional authorities would need to take decisive action through the relevant supervisory and regulatory institutions to strengthen compromised banks (through restructuring and recapitalization if needed), and minimize contagion risk.

### Text Table 1. Alternative Macroeconomic Scenarios (2014–21)

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|---|
| ***Baseline (Adjustment) Scenario*** | | | | | | | | |
| Non-Oil Fiscal Primary Balance (% of GDP) | -12.4 | -13.5 | -10.3 | -8.9 | -7.6 | -6.3 | -5.2 | -4.1 |
| Overall Fiscal Balance (% of GDP) | 2.5 | -2.3 | -5.8 | -4.8 | -4.0 | -2.9 | -2.3 | -1.6 |
| Government Deposits (% of non-oil GDP) | 11.0 | 9.3 | 6.2 | 4.9 | 5.4 | 6.2 | 6.5 | 6.7 |
| Public Debt (% of GDP) | 32.2 | 43.0 | 50.1 | 49.9 | 50.5 | 50.3 | 49.3 | 47.9 |
| International Reserves (US$ billion) | 2.7 | 2.1 | 1.6 | 1.4 | 1.4 | 1.5 | 1.6 | 1.8 |
| Current Account Balance (% of GDP) | 8.3 | -1.9 | -9.0 | -7.4 | -5.8 | -4.7 | -3.9 | -3.2 |
| **No-Fiscal Adjustment Scenario 1/** | | | | | | | | |
| Non-Oil Fiscal Primary Balance (% of GDP) | -12.4 | -13.5 | -11.7 | -11.6 | -11.4 | -11.1 | -10.8 | -10.5 |
| Overall Fiscal Balance (% of GDP) | 2.5 | -2.3 | -6.8 | -6.9 | -7.0 | -6.9 | -7.1 | -7.3 |
| Government Deposits (% of non-oil GDP) | 11.0 | 7.9 | 3.5 | 3.2 | 2.9 | 2.7 | 2.4 | 2.2 |
| Public Debt (% of GDP) | 32.2 | 42.0 | 50.1 | 50.6 | 54.4 | 56.9 | 59.6 | 62.5 |
| International Reserves (US$ billion) | 2.7 | 2.1 | 1.5 | 1.3 | 1.2 | 1.1 | 1.1 | 1.1 |
| Current Account Balance (% of GDP) | 8.3 | -1.9 | -9.4 | -8.1 | -6.8 | -6.0 | -5.5 | -4.9 |
| **Lower Oil Price Scenario 2/** | | | | | | | | |
| Non-Oil Fiscal Primary Balance (% of GDP) | -12.4 | -13.5 | -10.2 | -8.9 | -7.6 | -6.3 | -5.2 | -4.1 |
| Overall Fiscal Balance (% of GDP) | 2.5 | -2.3 | -6.8 | -5.7 | -4.8 | -3.7 | -3.0 | -2.3 |
| Government Deposits (% of non-oil GDP) | 11.0 | 9.3 | 5.0 | 4.5 | 4.1 | 3.8 | 3.5 | 3.2 |
| Public Debt (% of GDP) | 32.2 | 43.0 | 50.1 | 50.6 | 52.7 | 52.0 | 51.0 | 49.4 |
| International Reserves (US$ billion) | 2.7 | 2.1 | 1.5 | 1.4 | 1.2 | 1.1 | 1.1 | 1.2 |
| Current Account Balance (% of GDP) | 8.3 | -1.9 | -11.1 | -9.0 | -7.3 | -6.0 | -5.1 | -4.2 |

Source: IMF Staff calculations.

1/ No fiscal adjustment scenario assumes that government spending continues to grow in line with non-oil GDP growth, whereas the baseline scenario assumes a gradual decline in all spending headline items as a share of non-oil GDP. It is assumed that the government finances its deficits first through its available deposits at the central bank and borrows afterwards.

2/ Oil Price Scenario assumes that oil prices remain US$ 5 below projections in the World Economic Outlook. It is assumed that the government finances its deficits first through its available deposits at the central bank and borrows afterwards.

[3] Under this assumption the oil price would average US$25 per barrel in 2016.

# POLICY DISCUSSIONS: CONTAINING THE IMPACT OF THE OIL PRICE SHOCK

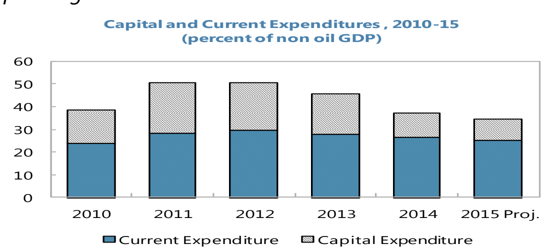
8. **The principal theme of the 2015 Article IV consultations was the impact of lower oil prices on the economy, especially on the budget and the financial sector.** Another key issue was how to reassess and reprioritize the PSGE so that it can be sustainably financed. Staff also assessed progress on other important issues and recommendations discussed during the 2014 Article IV consultations, including on the PSGE, structural reforms, and economic data shortcomings (see Annex II). As indicated in Annex II, there has been an improvement in the implementation of previous Article IV recommendations.

## A. Fully Adjusting to a New Oil Price Outlook

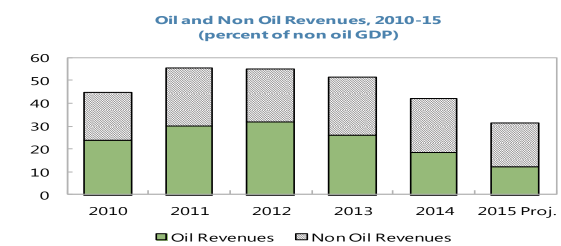
9. **The continued drawdown of fiscal buffers increases the risks to fiscal sustainability and the adequate financing of needed investment** (Figure 3)**.** While there was a slowdown in the execution of the 2015 budget (only 62 percent of budgeted capital spending was executed by September), non-oil revenue was lower than in 2014 and the government repaid large domestic arrears and temporary external arrears.[4] Financing pressures likely persisted in the last quarter considering the expected acceleration in spending. Taking into account these developments and the 2015 amended budget, the staff projects a fiscal deficit on a commitment basis of 3½ percent and on a cash basis of 9 percent of non-oil GDP (including large reimbursements of VAT-related and other arrears).

### Figure 3. Gabon: Fiscal Indicators

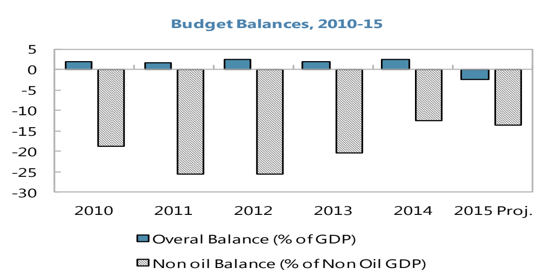
*The government has significantly reduced capital spending…*



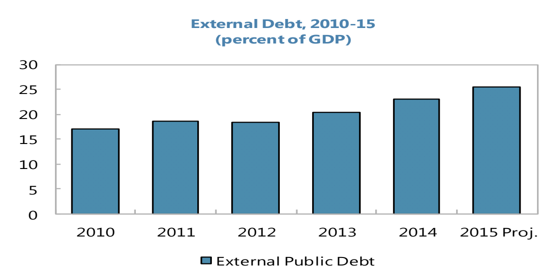

*..in the context of falling oil revenues…*




*..but the overall balance has turned negative..*




*…and external debt has increased.*




Sources: IMF and Gabonese Authorities.

[4] The authorities project end-2015 domestic arrears at CFAF 162 billion.

**10. Staff welcomes the authorities' aim to continue fiscal consolidation, as outlined in the 2016 budget draft and in the Medium Term Fiscal Framework (MTFF), but has substantial reservations on the underlying assumptions.**[5] While the assumed US$42 per barrel of Gabonese oil was conservative when the budget was prepared, the acceleration of the decline in international oil prices suggests there is a need to amend the budget accordingly. Furthermore, the 2016 initial budget optimistically assumes a 20 percent increase in non-oil revenues relative to the authorities' 2015 projection. It also proposes a small 3.5 percent increase in current spending, which will be politically difficult in an election environment and crowds out much-needed productive public investment by including two stadia to host the 2017 African Cup of Nations, which account for 15 percent of total capital spending.[6] The 2016–18 MTFF proposes spending paths that imply a freeze in current spending in nominal terms and a reduction in capital spending by 8 percent between 2015 and 2018. Under these assumptions the government expects that the overall fiscal deficit would gradually decline and reach a small surplus in 2018.

**11. The staff baseline scenario proposes a more substantial adjustment to preserve fiscal sustainability.** Staff proposes that the non-oil revenue base be widened over time with the elimination of overly generous tax exemptions; wages and salaries would grow at 2 percent per year in nominal terms throughout the period; and other main current spending items and capital spending grow in nominal terms but at a rate significantly below non-oil GDP growth (Figure 4). Under those assumptions, a debt sustainability analysis (DSA) shows Gabon's projected debt level peaking at 50.1 percent of GDP in 2016, and decline slowly from 2019. That said, shocks considered in the DSA could lead to much higher debt-to-GDP ratios, and a growth shock could propel debt significantly above the CEMAC ceiling (70 percent of GDP) by 2021. Given the large proportion of US dollar-denominated debt, exchange rate fluctuations constitute a significant risk to Gabon's external debt sustainability[7].

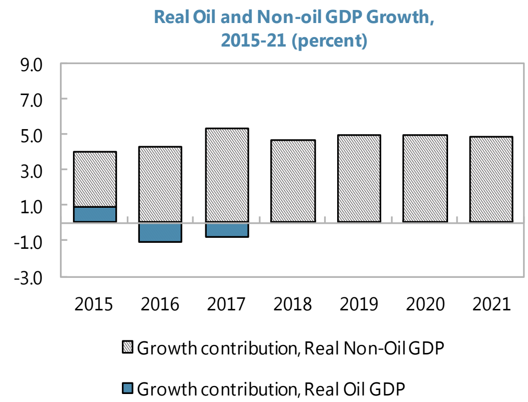
[5] Since the CFA franc is pegged to the euro, fiscal policy is the main policy mechanism to adjust to the terms-of-trade shock.

[6] Note that only 55 percent of planned improvements to the main road corridors have been finalized.

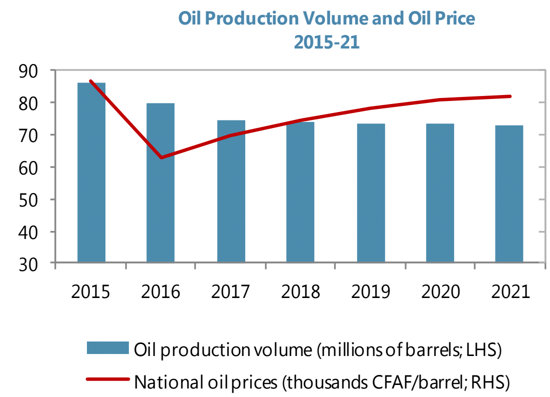
[7] About half of Gabon's public debt is denominated in US dollars, with Eurobonds accounting for most of it. The authorities continue to rely on the US dollar-denominated Eurobonds considering them their only feasible alternative to obtain large amounts of new budget financing.

## Figure 4. Gabon: Medium Term Outlook, 2015–21

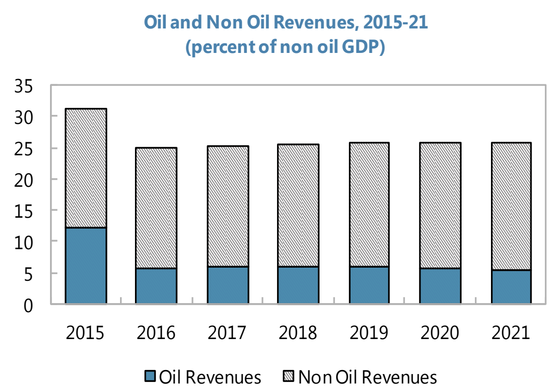
*Non-oil growth is expected to gradually recover…*



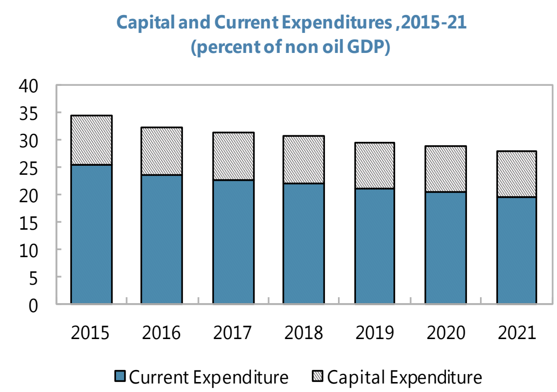

*…as oil production and prices remain weak….*



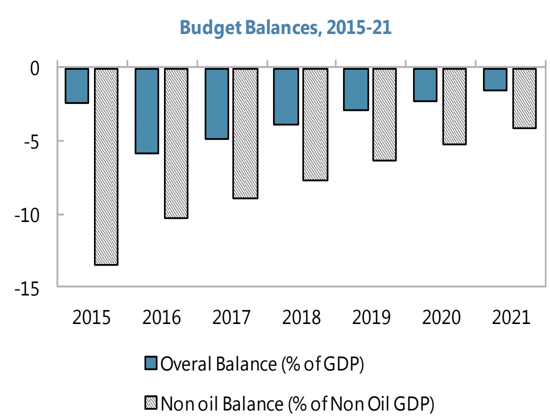

*…limiting government revenues…*



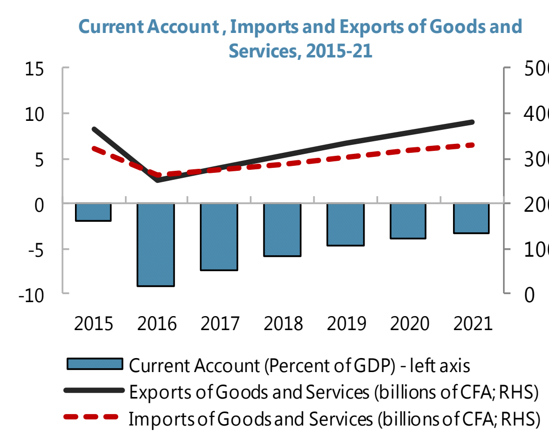

*…and forcing an adjustment in public spending…*




*…so as to progressively reduce the fiscal deficit.*



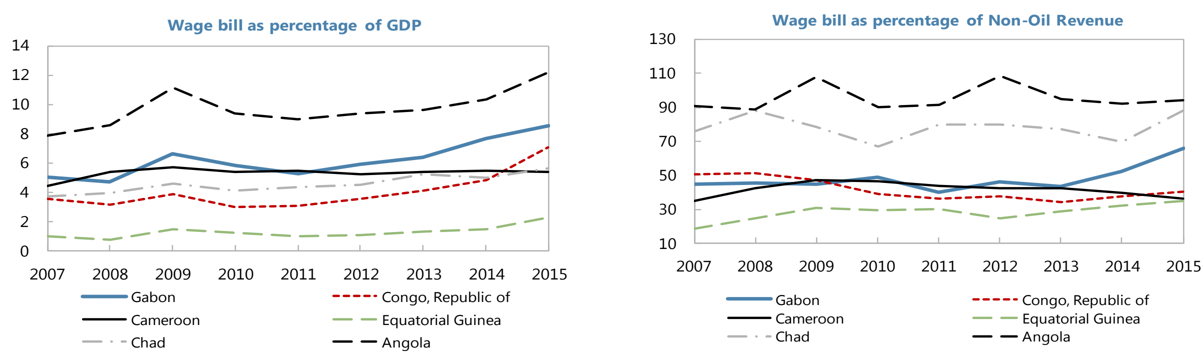

*With growing non-oil exports and increasing oil prices,the current account deficit will narrow.*




Sources: IMF and Gabonese Authorities.

**12. The outsized and still growing wage bill is a major threat to fiscal sustainability.** The wage bill grew by 70 percent between 2010 and 2015 (an 11 percent average growth rate per year), mainly due to a 30 percent increase in the number of public servants, the conversion of temporary workers to permanent status, and the introduction of an ill-designed performance incentive system in 2014 that was later converted into base pay in 2015. After this period of very high growth, in 2015 the wage bill accounted for 34 percent of total government spending and was equivalent to 38 percent of total revenue. As seen in Figure 5, by 2015 the wage bill was equivalent to 9 percent of GDP and to 60 percent of non-oil revenue; and the growth rates of these ratios in recent years have been high in the subregion.

**Figure 5. SSA Oil Producers' Wage Bill (2007–15)**




Source: IMF Staff estimates

**13. Staff commends the authorities for the implementation of major reforms to public financial management.** The main axis of these reforms is the implementation of the *budgétisation par objectifs de programme* (BOP), which aims to better align the budget process with public policy objectives, gauge performance, and increase decentralization and accountability. As part of the BOP, the authorities have aligned budget execution and public spending principles with CEMAC directives, significantly computerized the expenditure chain, started decentralizing budgetary execution, and adopted a single account at the BEAC, among other important measures.

**14. Adjusting to the unfavorable oil price outlook while ensuring the financing of the government's diversification plan requires a wide range of strong measures.** The authorities need to:

- Foster non-oil revenues by widening the tax base, mainly by reducing tax exemptions and improving tax administration. In a fiscally-challenging environment, it is hard to justify the recent elimination of taxes and fees for over 171 products as part of the so-called "policies against high living costs", and the prohibition of importation of vehicles over three years old, which represent a revenue loss of 0.7 percent of GDP in 2015. A review of these policies is urgently needed, especially in the context of rapidly rising real public wages. More generally, staff recommends a thorough review and reform of the tax policy regime.

- Prepare a revised budget for 2016, given the worsening growth and oil price outlook, to pre-empt unfavorable public debt dynamics and avoid the accumulation of arrears.

- Further enhance tax administration, drawing on extensive IMF and AFRITAC technical assistance by implementing measures such as formalizing the collaboration between tax and customs directorates, moving the collection of customs revenues from the Treasury to the customs department, modernizing customs drawback system, and adopting a risk-based approach to VAT reimbursements.

- There is also a critical need to curb inefficient and/or poorly targeted current spending, while protecting social spending. Most importantly, the public wage bill needs to grow below inflation in the medium term.

- With public investment considerably lower than in recent years, private sector participation for infrastructure construction should be encouraged by accelerating development of an appropriate Public Private Partnership (PPP) framework. Key projects under the PSGE should be reviewed and reprioritized while minimizing projects with limited long-term economic payoff such as sports infrastructure.[8]

- Staff recommends anchoring medium-term fiscal policy by targeting a steady reduction in the debt to non-oil GDP ratio through a progressive strengthening of the nonoil primary deficit, which would allow the authorities to rebuild fiscal buffers. Throughout the adjustment, and financing permitting, annual reductions in the non-oil primary deficit should not exceed 2 percent of non-oil GDP so as to limit the negative fiscal impulse.

- The implementation of the BOP should continue, taking into account recent recommendations by IMF technical assistance, emphasizing measures to improve treasury management and to avoid further accumulation of arrears, especially external arrears.

***Authorities' views***

**15. Amidst a worsened economic outlook, the authorities underlined that they are firmly committed to implementing measures in line with staff recommendations.** To this end, as a major sign of their commitment, they eliminated petrol and diesel subsidies on February 1, 2016, and introduced an automatic fuel-pricing mechanism. Now their major concern is the need to reduce the outsized wage bill. In addition to recently undertaken measures (incentives for early retirement, recruitment freezes, and the elimination of an inefficient incentive system), a major civil service reform is being designed with assistance from the World Bank. Potential measures could include improvements in human resource management such as merit-based recruitments and promotions. The government also aims to continue reducing tax exemptions, although it noted that not all tax incentives—especially those enshrined in law—can be easily eliminated. The authorities are studying

[8] Most studies show that investment in major international sporting events has relatively limited long-term economic returns (see a complete review of this issue in "Is it Worth it?" *Finance and Development,* March 2010).

the possibility of partly reversing the recent restriction on second-hand vehicle imports, and the World Bank is assisting them on the rationalization of the tax exemption regime. In view of continued declines in the oil price, the authorities indicated that they would limit expenditure in line with cash flow constraints, and prepare a revised 2016 budget with a lower oil price assumption. The authorities welcomed staff's recommended public financial management reforms, and reiterated their commitment to proceed with BOP reforms.

## B. Addressing the Financial Sector's Vulnerability to Macroeconomic Shocks and Weak Bank Governance

**16. The government has started addressing Gabon's public banks' deep-seated structural problems.** The problems culminated in the temporary closure of Poste Bank's branches in mid-October 2015. To stabilize the bank, the government replaced its CEO, injected liquidity, provided a blanket deposit guarantee, and imposed a limit on individual depositors' withdrawals. Furthermore, with the intervention of the regional supervisor (COBAC), all three public banks now have temporary administrators in place with a mission to propose restructuring plans within six months. Although the three public banks are relatively small (total assets of 3 percent of GDP and 9 percent of total banking system assets (Table 7)) and have limited links to the rest of the banking system, tackling their current situation is crucial to preserve financial stability and foster deepening and inclusion, especially in the rural areas where Poste Bank is well-established.[9]

**17. Gabon's financial system is generally sound on aggregate levels, but it has shown significant sensitivity to macroeconomic shocks.** Aggregate bank capital and liquidity levels appear adequate. Nonetheless, a stress test performed in the 2015 FSAP for CEMAC revealed Gabon is the second most vulnerable country in the sub-region to credit and liquidity shocks (Table 5 and 6). Gabon's non-performing loan ratio surged from 2.8 percent in June 2012 to 8.4 percent in November 2014 in part due to government arrears, before subsiding to about 4 percent in February 2015.[10] This illustrates the financial sector's vulnerability to developments in the oil sector through the government channel (Figure 6).

**18. Analysis indicates a significant causal link between oil price shocks and financial sector fragility** (see accompanying SIP).[11] This vulnerability has manifested as liquidity tensions in some commercial banks following the ongoing oil price shock, which forced them to resort to their parent companies or tap BEAC refinancing. The worsening growth and fiscal outlook is likely to increase NPLs significantly. The microfinance sector[12] also experienced a sharp deterioration in asset quality in

[9] The preferred options should be restructuring and recapitalization to preserve the value of the branch network.

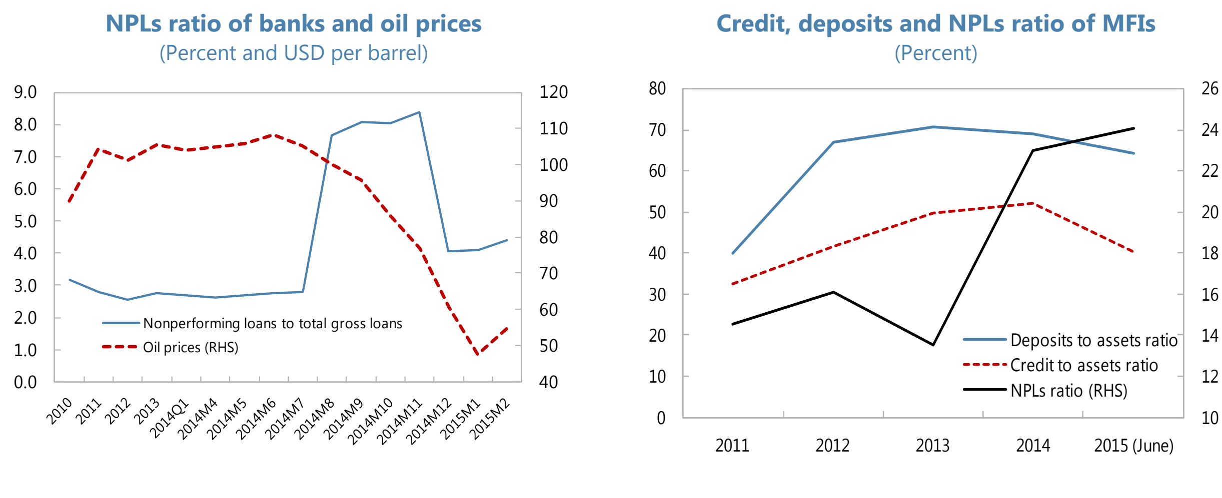
[10] Most recent observation provided by the authorities during the Article IV mission.

[11] A 40 percent oil-price shock (roughly the magnitude of the fall between June 2014 and December 2014) leads on average, to a 40 percent deterioration in asset quality across oil exporters. Such shock is transmitted through the government and the economic activity channels, and its magnitude depends on existing institutional frameworks, fiscal and financial buffers, and developments in the oil and non-oil sectors.

[12] The microfinancial sector, which consists of 10 institutions, has experienced a rapid increase in deposit and lending activities in recent years, with a deceleration in 2013 and contraction in 2014.

recent years, with NPLs rising from 14.6 percent in 2011 to 24.1 percent of gross loans in 2015. Although the underlying causes are unclear, the situation poses a serious threat to financial inclusion.

**Figure 6. Gabon: Recent developments in the financial sector's assets quality**




Source: COBAC and IMF staff estimates

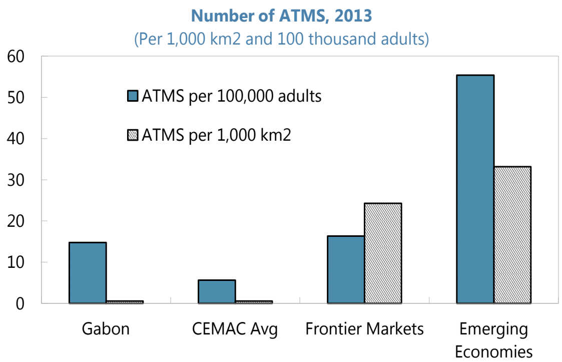
Note: NPLs ratio stands for Non-performing loans to total gross loans; MFI stands for microfinancial institution.

**19. Staff noted that financial inclusion has improved in recent years, but there has been little impact on financial deepening.** Physical outreach, as measured by the number of bank branches and ATMs per head, has substantially improved since 2004, bypassing frontier markets but remaining substantially below emerging markets levels (Figure 7). However, access to financial services is concentrated in a few urban areas and financial deepening, as measured by deposit- and loan-to-GDP ratios, is low at approximately a third of frontier markets averages and a quarter of emerging markets averages.[13] A lack of information on potential borrowers' credit history, high collateral requirements, and high lending rates are the main hurdles to credit supply.

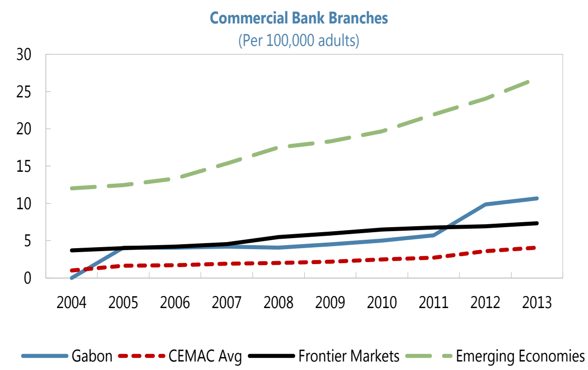
[13] Financial access and deepening in Gabon and CEMAC remain below emerging and frontier markets levels, even when measured in terms of non-oil GDP.

## Figure 7. Gabon: Financial Development and Inclusion

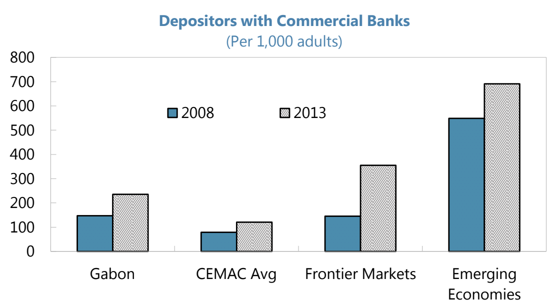
*Physical outreach both in terms of ATMs per head and km2…*



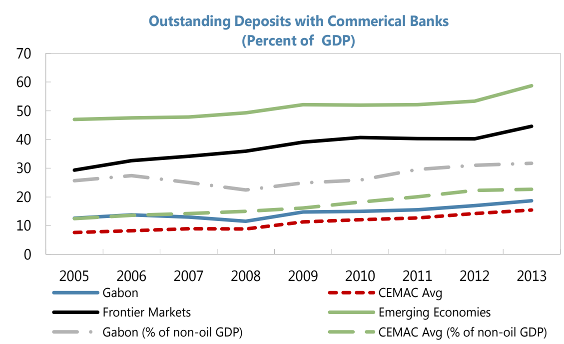

*…and the number of bank branches per head, although higher than the CEMAC average, are lower than in EMs.*



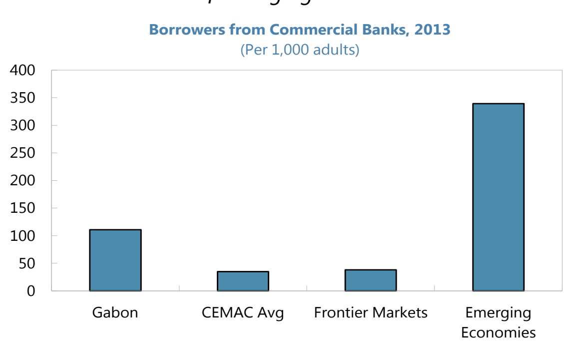

*Financial inclusion measured by deposits outperforms the CEMAC average. However, relatively little progress has been made since 2008, as compared with frontier and emerging markets.*



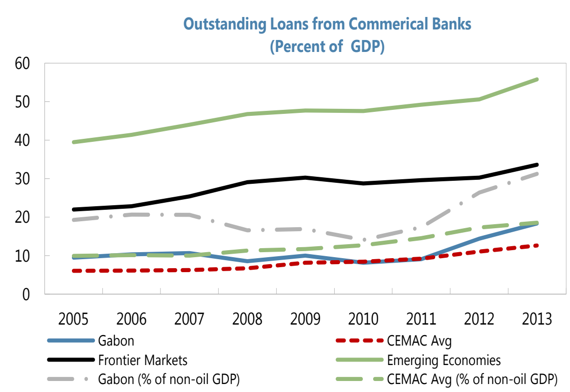

*Deposit-to-GDP ratio in Gabon is about the quarter of EM and frontier market averages.*




*Credit supply per 1000 adults by the banking sector is relatively high and above that of frontier markets, but remains below that of emerging markets.*




*The ratio of loans to GDP has remained low and is less than half that of emerging markets.*




Sources: Financial Access Survey, IMF and IMF staff calculations.

**20. Staff recommended decisive measures to safeguard the stability and development of the financial sector.** Key actions recommended are:

- Swiftly resolve pressing governance issues at the state-owned banks. Available options for bank resolution (restructuring or winding-down) should be assessed through careful cost-benefit analysis. Prior to injecting additional funds to restore regulatory capital, the government should ensure fundamental changes to banks' business models, risk management, and governance.

- Accelerate the PSGE economic diversification agenda to strengthen the financial sector's resilience to macroeconomic shocks by allowing the banking sector to better diversify its lending portfolio.

- Promote financial deepening and inclusion, by improving SMEs' access to financial services; creating credit bureaus and upgrading the operations of land and commercial registries; streamlining procedures for recording and enforcing guarantees; and strengthening creditor rights enforcement.

***Authorities' views***

**21. The authorities acknowledged the urgency to solve the deep-seated governance issues, while noting the limited systemic risk posed by state-owned banks.** They underscored that important decisions had been taken by the COBAC, notably the appointment temporary administrators with the mandate to deliver timely resolution plans. They indicated that Post Bank is the most serious case and they prefer to pursue a restructuring because its extensive rural branch network provides a strong platform for improving financial inclusion. A prerequisite for the bank's resolution would be a clear separation of operations of the post office (La Poste) and Poste Bank. For all public banks, they reassured staff that sound governance, business strategy, and risk management will be established prior to any commitment of government funds. On financial deepening, the authorities indicated their intent to further reduce barriers to finance, in particular through setting-up a credit registry and adopting new technology innovations in the banking sector.

## C. Promoting Non-oil Growth under Tighter Budget Constraints

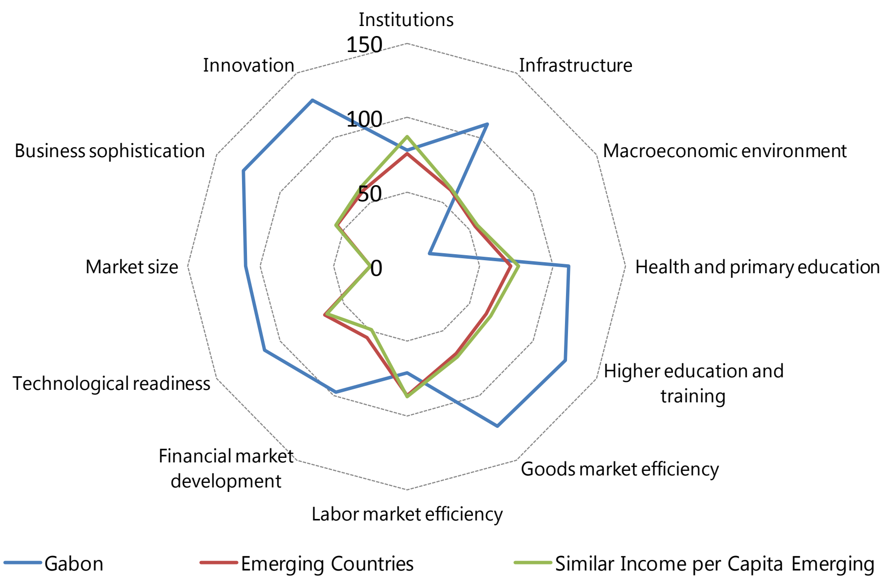
**22. The recent decline in oil prices is proving a stark reminder of Gabon's oil dependence, underscoring the need to foster non-oil growth and employment.** Econometric evidence presented in the 2015 CEMAC regional consultation staff report shows that shocks like the recent decline in oil prices could lead to negative non-oil GDP growth in Gabon, with effects from both fiscal pro-cyclicality and from direct linkages between the oil and non-oil economies. The current strong fiscal response of the authorities and increased non-oil production is expected to soften the impact during the current oil price slump. Still, the ongoing deceleration and vulnerable fiscal outlook highlights the importance of the authorities' PSGE, which seeks better stewardship of natural resources, infrastructure and human resource development, and moving up along the value chain.

**23. The authorities have been able to attract foreign non-oil investment, but partly relying on costly schemes.** As part of the PSGE, the government has appropriately allocated a portion of the oil windfall to strength the country's transport and energy infrastructure. The authorities have embarked on a major rehabilitation of the Trans-gabonais railway line with the support of the IFC. This should significantly remove bottlenecks for wood-related and mineral exports. Gabon has also partnered with Olam International in one of the largest agri-business investments currently underway in sub-Saharan Africa. The government has provided a land bank to Olam of 300,000 hectares, of which over one-sixth is already under oil palm and rubber cultivation. To date, Olam's foreign direct investment in Gabon has totaled US$1.5 billion, including plantations and the development of the Special Economic Zone and port capacity. Further impetus is expected to come from the GRAINE[14] program, a joint venture of Olam and the government to address food security and rural income issues in Gabon. These investments will increase both cash crop and subsistence farming, boosting real growth by one percentage point, although the tradeoff is government financing for related infrastructure and foregone revenue in the form of a long tax holiday.

**24. There is substantial room to implement more cost-efficient reforms to attract additional investment.** The focus should be on improving the business climate, especially considering that Gabon's standing in the World Bank's *Doing Business* report and in other rankings is very low, below comparator countries (Figure 8 and 9), as well as undertaking additional horizontal structural reforms aimed at reducing factor costs.

**Figure 8. Gabon: Global Competitiveness Index Comparison, 2015–16**

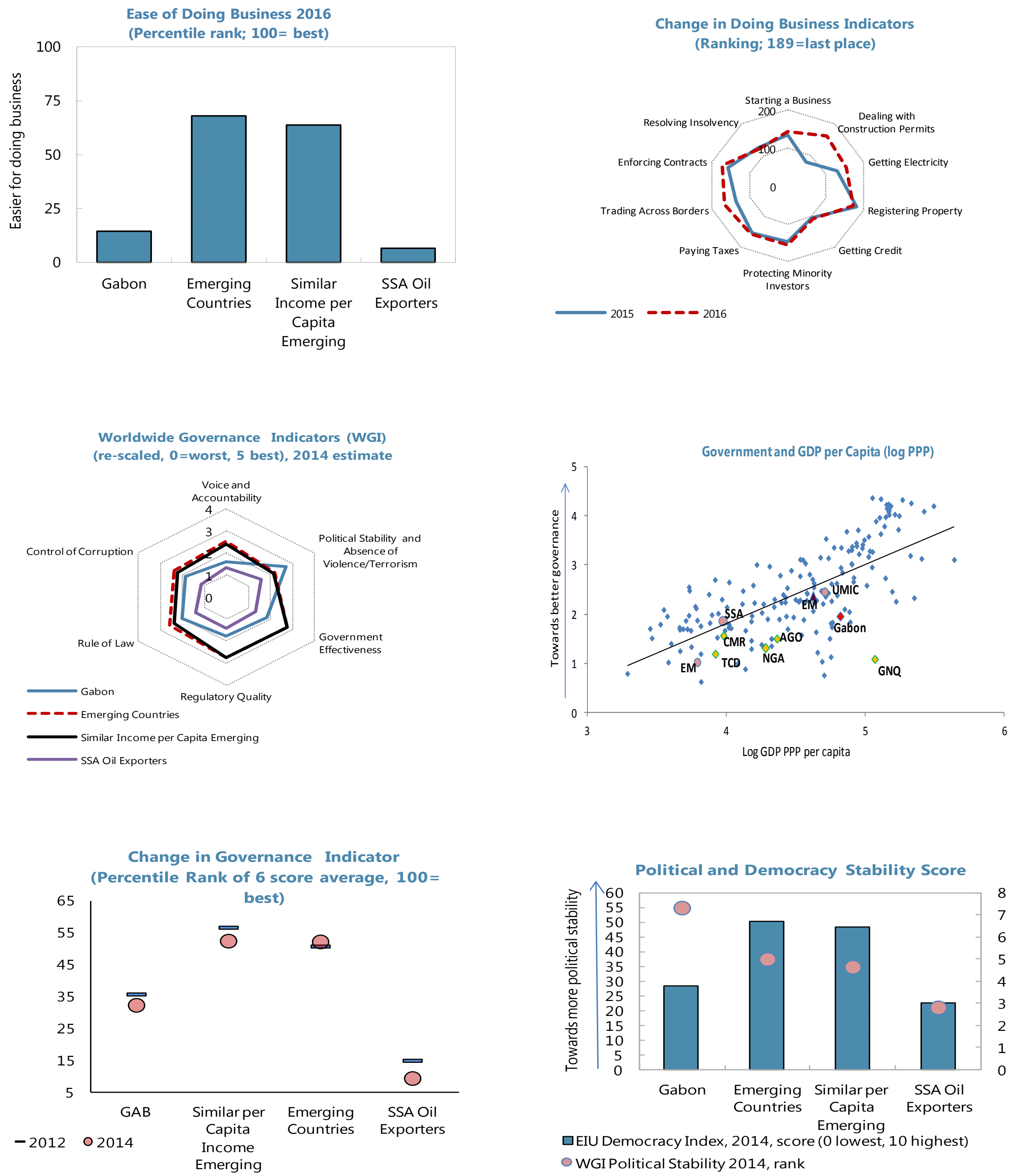
(Ranking; 140=last place




Sources: World Economic Forum and IMF staff calculations.

[14] Gabonaise des Réalisations Agricoles des Nationaux Engagés.

## Figure 9. Gabon: Business Environment and Governance




Sources: Doing Business, 2016; World Bank's Worldwide Governance Indicators (WGI), 2014, (average of control of corruption, government effectiveness, rule of law, regulatory quality, political stability and voice and accountability); Economist Intelligence Unit (EIU); and IMF staff calculations.
UMIC= Upper-middle income country; SSA= Sub-Saharan Africa; WGI= Worldwide Governance Indicators.
SSA oil exporters = Angola, Cameroon, Chad, Congo, Rep. of, Equatorial Guinea, Gabon, Nigeria.

**25. With the oil price shock weighing on private sector activity, PSGE growth and diversification objectives need to be protected and structural reforms accelerated.** In the present tight budgetary context, the authorities should aim to maximize the return on limited resources.

- Investor tax incentives should be avoided, as these undermine revenue generation and are unlikely to trigger a self-sustaining process of economic diversification.
- Investment should be reprioritized to focus on transport and energy projects with potential growth spillovers.
- In the same vein, priority should be on horizontal structural reforms aimed at raising economic competitiveness and productivity, notably in the areas of education, infrastructure, and institutions.
- Even prior to adopting a road map for Phase 2 of the PSGE, business climate reform should be accelerated, notably improving labor market legislation[15], strengthening anti-corruption efforts and the AML/CFT framework, and cutting red tape, as recommended in an action plan developed with the IFC.
- Deeper regional integration in CEMAC and more trade openness of the region would facilitate economic diversification in Gabon. Gabon should take a lead role in taking the necessary regional reforms forward. Similarly, Gabon should review its investment program against projects already underway in neighboring countries to ensure that possible synergies at the regional level are fully exploited.

***Authorities' views***

**26. The authorities concurred that in a tight budgetary environment the investment program should focus on projects with long-term spillovers.** The completion of corridors connecting growth poles, the continued development of SEZs, and the setting up of an investment promotion agency would help improve the business climate and boost FDI and exports in the near term. The authorities place great store in agro-industrial projects to boost non-oil growth. They underscored the catalytic role they expect from the redevelopment of the Trans-gabonais railway line which would ease transportation bottlenecks faced by the mining and wood industries. They noted that sports infrastructure projects would generate immediate employment as well as foster local development. Nevertheless, the road map being prepared for the second phase of the PGSE would focus on social transformation, including administrative reform, employment training, and health infrastructure.

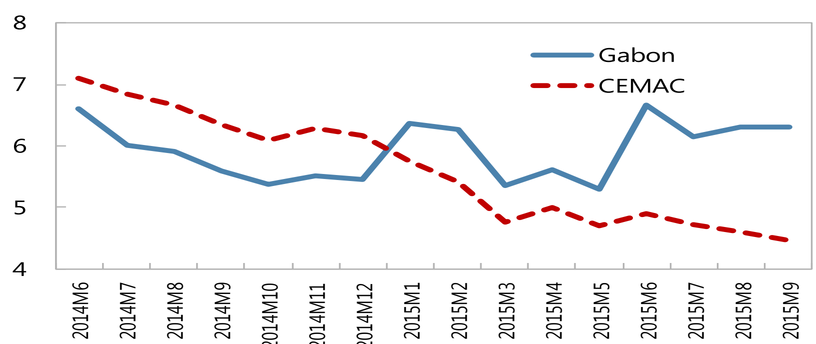
[15] Gabon fares better than the average of comparator countries (Figure 8) on the Global Competitiveness Index for labor market efficiency (68 of 140 countries), but several aspects need to be improved. While redundancy costs have been considerably reduced lately, there is a relatively high level of female participation, Gabon is relatively poor performer on some survey-based measures of labor market efficiency such as managerial proficiency (ranked 91) and on linking pay to productivity (ranked 114).

## D. Ensuring External Sustainability and Improving Competitiveness

**27. Gabon's external sustainability has deteriorated significantly due to the oil price shock.** The current account balance is projected to drop sharply from a surplus of 8.3 percent of GDP in 2014 to a deficit of 1.9 percent in 2015, then slowly recover but remain negative over the medium term. The recovery is predicated on the development of non-oil exports, which are projected to increase by 64 percent between 2014 and 2020 (mainly manganese and processed wood). The current account balance prospects, however, are vulnerable to spillovers from China, where rebalancing has reduced demand for commodity imports.

**28. Official external reserves appear adequate, but downward pressure has intensified since the oil price shock.** Although Gabon's contribution to reserves at the BEAC is among the highest in the CEMAC region, the principle of reserves pooling implies that Gabon's external sustainability hinges on the sustainability of the CEMAC region where overall reserves have declined even more dramatically (Figure 10). The BEAC recently adopted extraordinary measures to help countries cope with the oil price shock, through a 50-basis-point discount rate cut to 2.45 percent in July 2015 and a 52.4 percent increase in regional statutory advances in August 2015.[16] By end-2015, all countries had substantially drawn down on their deposits at the BEAC, and, except Cameroon and Gabon, they exhausted their available advances.[17]

**Figure 10. CEMAC and Gabon: BEAC Reserve Coverage**
(Months of prospective imports)




Sources: BEAC and IMF staff estimations.

**29. Model-based approaches strongly suggest that the real effective exchange rate (REER) is overvalued by 3 to 16 percent.** Despite the stability of Gabon's REER, both the Bems and Carvalho (2009) and Araujo et al. (2013) methodologies point to an overvaluation of the exchange rate, ranging from about 3 to 16 percent (Annex I).

[16] The overall increase in statutory advance was granted through the restoration of the statutory advances ceiling to 20 percent of the previous fiscal year's domestic revenue for each member state and a resetting of the reference year to 2014 from 2008.

[17] As of November 2015, Gabon had used up CFAF 340 billion out of CFAF 453 billion (ceiling).

**30. Given the significant real exchange rate overvaluation, staff recommended addressing competitiveness issues through:**

- Fiscal consolidation and structural reforms to promote exports diversification. The implementation of reforms under the PSGE should be continued, with increased focus on projects with the highest socio-economic returns and on improving the business climate. More horizontal reforms that better adapt education and training to the needs of the economy should also be embraced.

- Successful lobbying by Gabon to promote more efficient regional integration, trade, and implementation of regional policies that would help reduce external vulnerabilities notably by: (i) increasing the level of international reserves through the full repatriation of reserves by member states and more ambitious fiscal consolidation policies across member states; (ii) continuing the removal of barriers to regional trade (simplifying customs procedures and restoring fully the common external tariff; implementing the rules of origin; and creating common merchandise standards).

- Advocating greater coordination between regional and national authorities in the areas of regional governance, business climate, taxation and public investment.[18] This would ensure a greater efficiency in public investment, improve the attractiveness of the region to investors, and help relax pressures on the current account.

## E. Addressing Data Weaknesses and Fund Jurisdictional Issues

**31. There remain serious weaknesses in data comprehensiveness, availability, and quality in Gabon.** As described in the 2014 Article IV staff report, the main weaknesses include: (i) balance of payments inconsistencies; (ii) untimely financial soundness indicators; (iii) non-comprehensive fiscal statements; and (iv) scarce basic social indicators. Ratings agencies cite data weaknesses as a factor negatively affecting Gabon's sovereign debt ratings.

**32. The authorities have made progress in addressing some of the shortcomings.** Notably, the government issued the law establishing a national system of statistics and adopted a decree creating the National Agency for Statistics, and Demographic, Economic, and Social Studies. In addition, the 2013 demographic census has been finalized (estimating total population at 1.8 million) and through IMF technical assistance they are working toward the production of quarterly national accounts data. The authorities have also significantly improved the timeliness of the fiscal, monetary, and price data provided to the IMF.

**33. Staff encourages the authorities to redouble their efforts to strengthen their statistics services.** Special attention should be given to the quality of the data and to producing high frequency indicators.

[18] The management of public investment projects should be improved through the creation of monitoring committees within the CEMAC Commission for major national and regional projects, focusing on projects that generate growth, with a more pronounced role for the regional development bank, the BDEAC, in supporting regional development projects.

- Improving the quality of the data is a major requisite for the proper design and monitoring of the PSGE and to improve Gabon's access to international financial markets.

- The elaboration and publication of high frequency indicators is needed to improve economic surveillance, as well as the incorporation of more analytical elements to the *Note de Conjoncture* (a report published quarterly by the Ministry of the Economy).

**34. Fund jurisdictional issues:** As noted in previous Article IV staff reports, Gabon maintains a 1.5 percent tax on wire transfers abroad that is not consistent with Gabon's obligations under Article VIII, Section 2(a) of the Articles of Agreement. The proceeds of this tax are used to fund Gabon's health insurance scheme. The authorities note that they have exempted a number of transactions from this tax (notably, all interbank transfers), but do not propose eliminating the tax.

***Authorities' views***

**35. The authorities indicated that they are strongly committed to improving statistical systems, as well as data quality and timeliness.** To this end, the government is negotiating a loan with the World Bank to support the national statistical development strategy. Its key components include; (i) institutional reforms; (ii) human resource development; (iii) enhancement of quality and timeliness of statistics; and (iv) improvement of warehousing and dissemination of statistics.

# STAFF APPRAISAL

**36. The recent collapse in oil prices represents major terms-of-trade shock for Gabon, demanding an equally exceptional policy reaction from the authorities.** As part of a monetary union with a currency pegged to the euro, efforts should center on adjusting government finances to the new oil price outlook. Besides helping preserve internal and external macroeconomic balances, fiscal adjustment is also a prerequisite to ensure proper financing of the authorities' non-oil economic growth strategy. The magnitude of the terms-of-trade shock also requires careful monitoring of its likely negative impact on the financial sector. While implementing these measures the authorities also need to maintain focus on long-term reform efforts such as the improvement of its statistics system. Given its prominent role in the CEMAC, Gabon should play a key role as a champion for reform.

**37. Given medium-term projections that put the international oil price at less than half of its pre-2015 levels, the government needs to make additional efforts to cut spending while judiciously increasing non-oil revenues and protecting social spending.** The authorities are taking significant steps to this end, especially with their efforts to rein in the outsized wage bill. Staff welcomes the recent elimination of all diesel and petrol subsidies, and the introduction of an automatic fuel-pricing mechanism. However, there is urgent need to reverse recent measures that erode the revenue base (tax and fee exemptions to control the cost of living and restrictions on imported used vehicles), avoid clearly inefficient spending such as sports infrastructure, foster PPP participation for infrastructure development, and protect social spending. Given considerable changes in underlying macroeconomic conditions since the draft 2016 budget was prepared, staff believes an early revision to the budget is warranted to avoid escalating fiscal imbalances and increase policy credibility.

**38. Ongoing public finance management reforms would contribute to fiscal adjustment.** The ongoing implementation of the BOP is an important step to address the major public finance management weaknesses that were identified in the 2013 Public Expenditure and Financial Accountability (PEFA) performance assessment. Results are already showing up, but recent recommendations by IMF technical assistance need to be taken into account, while emphasizing measures to improve treasury management and to avoid further accumulation of arrears, especially external ones.

**39. The massive terms-of-trade shock requires the government to carefully monitor macrofinancial linkages that could amplify its economic impact.** The regional and national authorities need to aggressively address currently troubled public banks. In addition, and considering the dominance of oil and government activities to bank creditors, the entire banking system needs to be closely monitored, focusing on the likely increase in NPLs. The financial sector's resilience to macroeconomic shocks needs to be enhanced, by promoting economic diversification which would foster the diversification of the banking sector's lending portfolio. At the same time, the authorities should not lose track of their long-term goals to promote financial deepening and inclusion.

**40. Fiscal adjustment should take into account the evident need to foster Gabon's economic diversification and reduce its vulnerability to oil price fluctuations.** In the present tight budgetary context, the authorities should aim to maximize the return on limited resources and avoid incentives for investors, while focusing spending on infrastructure development, prioritizing horizontal, productivity-boosting structural reforms, notably in the areas of education, infrastructure, institutions, labor flexibility, bureaucratic procedures, anti-corruption, and AML/CFT. Gabon could also advocate for CEMAC external trade liberalization, as well as deeper intraregional integration. Such productivity enhancing measures are also needed to address current real exchange rate overvaluation.

**41. Staff commends the authorities for their efforts to address major weaknesses in economic statistics, while noting that they are still a major hindrance on economic surveillance.** The negative impact of weak statistics on Gabon's sovereign debt rating is noteworthy. Ongoing measures to improve the quality and timeliness of high-frequency macroeconomic indicators and social indicators are crucial, but work is also needed to improve the very weak balance of payments and financial stability statistics. Staff encourages the authorities to implement measures under the forthcoming World Bank-supported statistics reforms.

**42. Gabon maintains a tax on wire transfers, which is inconsistent with its obligations under Article VIII.** Staff does not recommend approval of this restriction.

**43. Staff recommends that the next Article IV consultation with Gabon be held on the standard 12-month consultation cycle**.

## Table 1. Gabon: Selected Economic and Financial Indicators, 2013–21

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|---|---|
| | Est. | Est. | Prel. Est. | Proj. | | | | | |
| | (Annual percent change, unless otherwise indicated) | | | | | | | | |
| Real sector | | | | | | | | | |
| GDP at constant prices | 5.6 | 4.3 | 4.0 | 3.2 | 4.5 | 4.7 | 4.9 | 5.0 | 4.9 |
| Oil | -2.2 | 1.8 | 4.2 | -5.7 | -4.7 | 0.0 | 0.1 | 0.0 | 0.1 |
| of which: primary oil | -5.3 | -0.3 | 7.9 | -7.4 | -6.9 | -0.6 | -0.5 | -0.6 | -0.6 |
| Non-oil | 7.8 | 5.0 | 4.0 | 5.4 | 6.6 | 5.6 | 5.8 | 5.8 | 5.7 |
| GDP deflator | -6.2 | -0.9 | -9.3 | -6.3 | 4.8 | 4.0 | 3.4 | 2.8 | 2.6 |
| Oil | -7.8 | -6.3 | -24.6 | -26.2 | 12.0 | 7.4 | 5.8 | 3.6 | 3.0 |
| Primary Oil | -9.4 | -6.4 | -32.4 | -42.1 | 21.3 | 12.0 | 8.7 | 4.8 | 2.0 |
| Consumer prices | | | | | | | | | |
| Yearly average | 0.5 | 4.5 | 0.1 | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 |
| End of period | 3.3 | 1.7 | 0.1 | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 |
| External sector | | | | | | | | | |
| Exports, f.o.b. | -8.1 | -8.5 | -25.9 | -33.1 | 11.9 | 10.8 | 9.1 | 7.8 | 6.0 |
| Imports, f.o.b. | 4.9 | 2.4 | -9.2 | -20.7 | 5.5 | 4.9 | 5.4 | 5.7 | 4.0 |
| Terms of trade (deterioration= – ) | -2.8 | -8.4 | -41.2 | -35.6 | 18.1 | 9.3 | 6.8 | 3.3 | -0.1 |
| Central government finance | | | | | | | | | |
| Total revenue | -0.6 | -10.4 | -22.9 | -12.5 | 11.8 | 10.6 | 10.4 | 9.1 | 8.5 |
| Oil revenue | -12.2 | -23.0 | -31.4 | -49.6 | 14.4 | 11.4 | 8.1 | 4.2 | 1.5 |
| Total expenditure | -1.2 | -14.6 | -4.7 | 2.4 | 7.2 | 6.4 | 5.4 | 6.0 | 5.4 |
| | (Percent of GDP, unless otherwise indicated) | | | | | | | | |
| Non-oil primary balance (in non-oil GDP) | -20.3 | -12.4 | -13.5 | -10.3 | -8.9 | -7.6 | -6.3 | -5.2 | -4.1 |
| Overall balance (commitment basis) | 1.8 | 2.5 | -2.3 | -5.8 | -4.8 | -4.0 | -2.9 | -2.3 | -1.6 |
| Overall balance (cash basis) | 0.2 | -1.1 | -6.2 | -6.8 | -4.8 | -4.0 | -2.9 | -2.3 | -1.6 |
| Overall balance (cash basis, percent of non-oil GI | 0.4 | -1.7 | -9.0 | -8.8 | -6.2 | -5.1 | -3.7 | -2.9 | -2.0 |
| Net domestic financing | -10.4 | 0.1 | 4.4 | 4.0 | 1.4 | -0.3 | -0.6 | -0.2 | -0.3 |
| Net external financing | 10.0 | 1.6 | 4.6 | 4.8 | 4.8 | 5.3 | 4.4 | 3.1 | 2.3 |
| External public debt (including to the Fund) | 23.5 | 27.3 | 35.6 | 41.2 | 41.3 | 42.1 | 42.1 | 41.4 | 40.2 |
| Total public debt | 29.2 | 32.2 | 43.0 | 50.1 | 49.9 | 50.5 | 50.3 | 49.3 | 47.9 |
| of which: statutory advances from BEAC | 3.0 | 2.9 | 4.0 | 4.1 | 3.8 | 3.5 | 3.2 | 3.0 | 2.8 |
| | (Percent Change, unless otherwise indicated) | | | | | | | | |
| Money and credit | | | | | | | | | |
| Credit to the economy | 23.6 | -2.0 | -5.3 | 3.1 | 5.1 | 6.4 | 9.8 | 9.9 | 10.1 |
| Broad money | 6.1 | 1.6 | -1.1 | -0.5 | 0.8 | 1.1 | 1.9 | 2.1 | 3.2 |
| Velocity ratio of NOGDP over broad money | 2.4 | 2.5 | 2.7 | 2.9 | 3.2 | 3.5 | 3.7 | 4.0 | 4.2 |
| | (Percent of GDP, unless otherwise indicated) | | | | | | | | |
| Gross national savings | 41.2 | 43.0 | 35.4 | 28.2 | 29.0 | 30.4 | 31.9 | 32.5 | 31.4 |
| Gross fixed investment | 29.3 | 34.8 | 37.2 | 37.2 | 36.5 | 36.2 | 36.6 | 36.5 | 34.6 |
| of which: private | 18.7 | 28.0 | 30.9 | 30.3 | 29.6 | 29.5 | 29.9 | 29.8 | 28.0 |
| public | 10.6 | 6.7 | 6.3 | 6.9 | 6.9 | 6.8 | 6.7 | 6.6 | 6.6 |
| Current account balance | 11.9 | 8.3 | -1.9 | -9.0 | -7.4 | -5.8 | -4.7 | -3.9 | -3.2 |
| | (CFA francs billion, unless otherwise indicated) | | | | | | | | |
| Memorandum items | | | | | | | | | |
| Nominal GDP | 8,691 | 8,988 | 8,483 | 8,201 | 8,984 | 9,783 | 10,609 | 11,448 | 12,317 |
| Nominal non-oil GDP | 5,119 | 5,581 | 5,804 | 6,337 | 6,996 | 7,646 | 8,347 | 9,102 | 9,899 |
| National Currency per U.S. Dollar (Average) | 494 | 494 | 592 | .. | .. | .. | .. | .. | .. |
| Oil Prices (WEO, U.S. Dollar/BBL) | 104 | 96 | 51 | 30 | 36 | 40 | 43 | 45 | 46 |

Sources: Gabonese authorities and IMF staff estimates and projections.

## Table 2. Gabon: Central Government Operations, 2013–21

| | 2013 | 2014 | 2015 | 2016 Draft Budget | 2016 Staff | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|---|---|---|
| | Est. | Est. | Prel. Est. | | | | Proj. | | | |
| | | | | (Billion of CFA francs) | | | | | | |
| Total revenue and grants | 2,622 | 2,349 | 1,811 | 1,950 | 1,585 | 1,772 | 1,960 | 2,163 | 2,361 | 2,562 |
| Revenue | 2,622 | 2,349 | 1,811 | 1,950 | 1,585 | 1,772 | 1,960 | 2,163 | 2,361 | 2,562 |
| Oil revenue | 1,344 | 1,035 | 709 | 601 | 358 | 409 | 456 | 493 | 514 | 521 |
| Non-oil revenue | 1,278 | 1,314 | 1,102 | 1,349 | 1,227 | 1,363 | 1,504 | 1,670 | 1,848 | 2,041 |
| Tax revenue | 1,213 | 1,178 | 1,032 | 1,262 | 1,158 | 1,289 | 1,427 | 1,586 | 1,755 | 1,940 |
| Taxes on income, profits, and capital gains | 343 | 382 | 393 | 559 | 445 | 494 | 536 | 587 | 639 | 693 |
| Domestic taxes on goods and services | 280 | 286 | 176 | 255 | 205 | 235 | 267 | 303 | 344 | 389 |
| Value-added tax | 213 | 217 | 147 | 216 | 170 | 199 | 231 | 268 | 310 | 357 |
| Other | 67 | 69 | 29 | 39 | 35 | 36 | 36 | 35 | 34 | 31 |
| Taxes on international trade and transactions | 401 | 360 | 344 | 408 | 376 | 417 | 456 | 500 | 546 | 597 |
| Import tariffs | 389 | 342 | 339 | 385 | 370 | 409 | 447 | 488 | 532 | 578 |
| Export taxes | 12 | 18 | 5 | 23 | 6 | 8 | 10 | 12 | 15 | 18 |
| Other non-oil taxes | 189 | 150 | 119 | 40 | 132 | 143 | 168 | 196 | 226 | 261 |
| Non-tax revenue | 65 | 136 | 70 | 87 | 69 | 74 | 77 | 85 | 92 | 101 |
| Grants | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | | | | | | | | | | |
| Total expenditure and net lending | 2,468 | 2,120 | 2,010 | 2,113 | 2,059 | 2,206 | 2,346 | 2,474 | 2,624 | 2,765 |
| Current expenditure | 1,419 | 1,477 | 1,476 | 1,529 | 1,490 | 1,590 | 1,686 | 1,766 | 1,866 | 1,956 |
| Wages and salaries | 553 | 691 | 728 | 732 | 732 | 747 | 762 | 777 | 793 | 809 |
| Goods and services | 239 | 265 | 252 | 247 | 268 | 288 | 306 | 328 | 351 | 374 |
| Interest payments | 152 | 111 | 125 | 180 | 181 | 222 | 258 | 275 | 301 | 314 |
| Domestic | 22 | 17 | 24 | 38 | 40 | 46 | 49 | 51 | 53 | 48 |
| Foreign | 130 | 94 | 102 | 142 | 141 | 176 | 210 | 224 | 247 | 266 |
| Transfers and subsidies | 476 | 410 | 370 | 370 | 309 | 334 | 360 | 386 | 422 | 459 |
| of which: oil subsidies | 220 | 139 | 80 | 83 | 1 | 3 | 5 | 6 | 7 | 7 |
| Capital expenditure | 925 | 606 | 533 | 584 | 568 | 616 | 661 | 708 | 758 | 809 |
| Domestically financed | 655 | 350 | 332 | 202 | 86 | 108 | 110 | 152 | 196 | 242 |
| Foreign financed | 271 | 256 | 201 | 382 | 482 | 508 | 551 | 556 | 562 | 567 |
| Net lending | -99 | 12 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Road Fund (FER) and special funds | 223 | 25 | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | | | | | | | | | | |
| Overall balance (commitment basis) | 154 | 229 | -198 | -163 | -474 | -434 | -387 | -311 | -263 | -203 |
| | | | | | | | | | | |
| Change in arrears | -134 | -326 | -325 | -81 | -81 | 0 | 0 | 0 | 0 | 0 |
| Domestic arrears payments | -134 | -327 | -325 | -81 | -81 | 0 | 0 | 0 | 0 | 0 |
| External arrears (interest only) | 0 | 0.3 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | | | | | | | | | | |
| Overall balance (cash basis) | 20 | -97 | -523 | -244 | -555 | -434 | -387 | -311 | -263 | -203 |
| | | | | | | | | | | |
| Total financing | -20 | 97 | 523 | 244 | 555 | 434 | 387 | 311 | 263 | 203 |
| Foreign borrowing (net) | 514 | 90 | 265 | 183 | 304 | 335 | 408 | 365 | 283 | 230 |
| Drawings | 271 | 256 | 201 | 382 | 482 | 508 | 551 | 556 | 562 | 567 |
| Amortization | -481 | -185 | -232 | -199 | -179 | -288 | -143 | -192 | -279 | -338 |
| Exceptional financing (Eurobonds) | 725 | 0 | 296 | 0 | 0 | 115 | 0 | 0 | 0 | 0 |
| Domestic borrowing (net) | -534 | 7 | 258 | 61 | 251 | 99 | -21 | -54 | -20 | -27 |
| Banking system | -319 | 38 | 204 | 142 | 201 | 49 | -71 | -104 | -70 | -77 |
| Monetary authorities | -331 | 63 | 154 | 42 | 151 | 49 | -71 | -104 | -70 | -77 |
| Deposit money banks | 11 | -26 | 50 | 100 | 50 | 0 | 0 | 0 | 0 | 0 |
| Non-bank sector | -215 | -31 | 54 | -81 | 50 | 50 | 50 | 50 | 50 | 50 |
| Financing gap | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | | | | | | | | | | |
| *Memorandum item:* | | | | | | | | | | |
| Gross government deposits in BEAC | 740.0 | 614.6 | 542.5 | 500.4 | 391.5 | 342.6 | 413.8 | 517.5 | 587.5 | 664.4 |
| of which: readily available deposits | 543.0 | 411.0 | 425.8 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| Statutory advances from BEAC | 257.5 | 257.5 | 339.5 | 439.5 | 339.5 | 339.5 | 339.5 | 339.5 | 339.5 | 339.5 |
| Non-oil primary balance excluding capital transfers (NOPD) | -1,039 | -695 | -782 | -584 | -650 | -621 | -584 | -529 | -476 | -410 |
| as percent of non-oil GDP | -20.3 | -12.4 | -13.5 | -10.1 | -10.3 | -8.9 | -7.6 | -6.3 | -5.2 | -4.1 |
| Non-oil GDP at market prices | 5,119 | 5,581 | 5,804 | 5,804 | 6,337 | 6,996 | 7,646 | 8,347 | 9,102 | 9,899 |

Source: Gabonese authorities and IMF staff estimates and projections.

## Table 3. Gabon: Central Government Operations, 2013–21

| | 2013 | 2014 | 2015 | 2016 Draft Budget | 2016 Staff | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|---|---|---|
| | Est. | Est. | Prel. Est. | | | | Proj. | | | |
| | | | | (Percent of non-oil GDP) | | | | | | |
| Total revenue and grants | 51.2 | 42.1 | 31.2 | 30.8 | 25.0 | 25.3 | 25.6 | 25.9 | 25.9 | 25.9 |
| Revenue | 51.2 | 42.1 | 31.2 | 30.8 | 25.0 | 25.3 | 25.6 | 25.9 | 25.9 | 25.9 |
| Oil revenue | 26.3 | 18.5 | 12.2 | 9.5 | 5.6 | 5.8 | 6.0 | 5.9 | 5.6 | 5.3 |
| Non-oil revenue | 25.0 | 23.6 | 19.0 | 21.3 | 19.4 | 19.5 | 19.7 | 20.0 | 20.3 | 20.6 |
| Tax revenue | 23.7 | 21.1 | 17.8 | 19.9 | 18.3 | 18.4 | 18.7 | 19.0 | 19.3 | 19.6 |
| Taxes on income, profits, and capital gains | 6.7 | 6.9 | 6.8 | 8.8 | 7.0 | 7.1 | 7.0 | 7.0 | 7.0 | 7.0 |
| Domestic taxes on goods and services | 5.5 | 5.1 | 3.0 | 4.0 | 3.2 | 3.4 | 3.5 | 3.6 | 3.8 | 3.9 |
| Taxes on international trade and transactions | 7.8 | 6.4 | 5.9 | 6.4 | 5.9 | 6.0 | 6.0 | 6.0 | 6.0 | 6.0 |
| Other non-oil taxes | 3.7 | 2.7 | 2.0 | 0.6 | 2.1 | 2.1 | 2.2 | 2.3 | 2.5 | 2.6 |
| Non-tax revenue | 1.3 | 2.4 | 1.2 | 1.4 | 1.1 | 1.1 | 1.0 | 1.0 | 1.0 | 1.0 |
| Total expenditure and net lending | 48.2 | 38.0 | 34.6 | 33.3 | 32.5 | 31.5 | 30.7 | 29.6 | 28.8 | 27.9 |
| Current expenditure | 27.7 | 26.5 | 25.4 | 24.1 | 23.5 | 22.7 | 22.0 | 21.2 | 20.5 | 19.8 |
| Wages and salaries | 10.8 | 12.4 | 12.5 | 11.6 | 11.6 | 10.7 | 10.0 | 9.3 | 8.7 | 8.2 |
| Goods and services | 4.7 | 4.7 | 4.3 | 3.9 | 4.2 | 4.1 | 4.0 | 3.9 | 3.9 | 3.8 |
| Interest payments | 3.0 | 2.0 | 2.2 | 2.8 | 2.9 | 3.2 | 3.4 | 3.3 | 3.3 | 3.2 |
| Transfers and subsidies | 9.3 | 7.3 | 6.4 | 5.8 | 4.9 | 4.8 | 4.7 | 4.6 | 4.6 | 4.6 |
| of which: oil subsidies | 4.3 | 2.5 | 1.4 | 1.3 | 0.0 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 |
| Capital expenditure | 18.1 | 10.9 | 9.2 | 9.2 | 9.0 | 8.8 | 8.6 | 8.5 | 8.3 | 8.2 |
| Domestically financed | 12.8 | 6.3 | 5.7 | 3.2 | 1.4 | 1.5 | 1.4 | 1.8 | 2.2 | 2.4 |
| Foreign financed | 5.3 | 4.6 | 3.5 | 6.0 | 7.6 | 7.3 | 7.2 | 6.7 | 6.2 | 5.7 |
| Net lending | -1.9 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Road Fund (FER) and special funds | 4.4 | 0.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall balance (commitment basis) | 3.0 | 4.1 | -3.4 | -2.6 | -7.5 | -6.2 | -5.1 | -3.7 | -2.9 | -2.0 |
| Change in arrears | -2.6 | -5.8 | -5.6 | -1.3 | -1.3 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Overall balance (cash basis) | 0.4 | -1.7 | -9.0 | -3.9 | -8.8 | -6.2 | -5.1 | -3.7 | -2.9 | -2.0 |
| Total financing | -0.4 | 1.7 | 9.0 | 3.9 | 8.8 | 6.2 | 5.1 | 3.7 | 2.9 | 2.0 |
| Foreign borrowing (net) | 10.0 | 1.6 | 4.6 | 2.9 | 4.8 | 4.8 | 5.3 | 4.4 | 3.1 | 2.3 |
| Drawings | 5.3 | 4.6 | 3.5 | 6.0 | 7.6 | 7.3 | 7.2 | 6.7 | 6.2 | 5.7 |
| Amortization | -9.4 | -3.3 | -4.0 | -3.1 | -2.8 | -4.1 | -1.9 | -2.3 | -3.1 | -3.4 |
| Exceptional financing (Eurobonds) | 14.2 | 0.0 | 5.1 | 0.0 | 0.0 | 1.6 | 0.0 | 0.0 | 0.0 | 0.0 |
| Domestic borrowing (net) | -10.4 | 0.1 | 4.4 | 1.0 | 4.0 | 1.4 | -0.3 | -0.6 | -0.2 | -0.3 |
| Banking system | -6.2 | 0.7 | 3.5 | 2.2 | 3.2 | 0.7 | -0.9 | -1.2 | -0.8 | -0.8 |
| Non-bank sector | -4.2 | -0.6 | 0.9 | -1.3 | 0.8 | 0.7 | 0.7 | 0.6 | 0.5 | 0.5 |
| | | | | (Billion of CFA francs, unless otherwise indicated) | | | | | | |
| Total revenue and grants | 2,622 | 2,349 | 1,811 | 1,950 | 1,585 | 1,772 | 1,960 | 2,163 | 2,361 | 2,562 |
| Total expenditure and net lending | 2,468 | 2,120 | 2,010 | 2,113 | 2,059 | 2,206 | 2,346 | 2,474 | 2,624 | 2,765 |
| Overall balance | 154 | 229 | -198 | -163 | -474 | -434 | -387 | -311 | -263 | -203 |
| Memorandum items: | | | | | | | | | | |
| Gross government deposits in BEAC (percent of GDP) | 8.5 | 7.2 | 6.0 | 5.1 | 4.0 | 3.2 | 3.6 | 4.2 | 4.4 | 4.7 |
| of which: readily available deposits | 6.2 | 4.8 | 4.7 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| Overall balance (percent of GDP) | 1.8 | 2.5 | -2.3 | -2.0 | -5.8 | -4.8 | -4.0 | -2.9 | -2.3 | -1.6 |
| Non-oil primary balance excluding capital transfers | -1,039 | -695 | -782 | -650 | -650 | -621 | -584 | -529 | -476 | -410 |
| As percent of non-oil GDP | -20.3 | -12.4 | -13.5 | -10.3 | -10.3 | -8.9 | -7.6 | -6.3 | -5.2 | -4.1 |
| Oil revenues (percent of oil GDP) | 37.6 | 30.4 | 26.5 | 19.2 | 19.2 | 20.6 | 21.3 | 21.8 | 21.9 | 21.5 |
| Basic balance (percent of GDP) | 4.9 | 5.4 | 0.0 | 2.7 | 0.1 | 0.8 | 1.7 | 2.3 | 2.6 | 3.0 |
| Public debt (percent of GDP) | 29.2 | 32.2 | 43.0 | n.a. | 50.1 | 49.9 | 50.5 | 50.3 | 49.3 | 47.9 |
| External debt (percent of GDP) | 23.5 | 27.3 | 35.6 | n.a. | 41.2 | 41.3 | 42.1 | 42.1 | 41.4 | 40.2 |
| Domestic debt (percent of GDP) | 5.8 | 4.9 | 7.4 | n.a. | 8.8 | 8.7 | 8.4 | 8.1 | 7.9 | 7.7 |
| of which: statutory advances from BEAC (% of GDP) | 3.0 | 2.9 | 4.0 | n.a. | 4.1 | 3.8 | 3.5 | 3.2 | 3.0 | 2.8 |
| Non-oil GDP at market prices | 5,119 | 5,581 | 5,804 | 6,337 | 6,337 | 6,996 | 7,646 | 8,347 | 9,102 | 9,899 |

Sources: Gabonese authorities and IMF staff estimates and projections.

## Table 4. Gabon: Monetary Survey and Central Bank Accounts, 2013–21

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|---|---|
| | Est. | Est. | Prel. Est. | Proj. | | | | | |
| | (Billion of CFA francs, unless otherwise indicated) | | | | | | | | |
| Net foreign assets | 1424 | 1314 | 1188 | 881 | 835 | 855 | 914 | 933 | 892 |
| Net domestic assets | 732 | 878 | 980 | 1276 | 1339 | 1343 | 1325 | 1354 | 1468 |
| Domestic credit | 999 | 1133 | 1272 | 1529 | 1567 | 1576 | 1593 | 1632 | 1777 |
| Claims on central government (net) | -250 | -150 | 54 | 269 | 240 | 161 | 38 | -79 | -108 |
| Claims on public agencies (net) | -124 | -21 | -21 | -21 | -21 | -21 | -21 | -21 | -21 |
| Claims on nongovernment | 1373 | 1304 | 1239 | 1280 | 1348 | 1436 | 1576 | 1731 | 1905 |
| Other items (net) | -268 | -256 | -293 | -253 | -229 | -233 | -268 | -278 | -308 |
| Broad money (M2) | 2157 | 2192 | 2168 | 2157 | 2174 | 2198 | 2240 | 2287 | 2360 |
| Currency | 348 | 402 | 324 | 376 | 379 | 383 | 390 | 399 | 411 |
| Deposits | 1809 | 1789 | 1843 | 1781 | 1795 | 1815 | 1849 | 1888 | 1949 |
| | (Annual change as percent of Broad Money) | | | | | | | | |
| Net foreign assets | 15.6 | -5.1 | -5.7 | -14.1 | -2.1 | 0.9 | 2.7 | 0.8 | -1.8 |
| Net domestic assets | -8.9 | 6.7 | 4.7 | 13.7 | 2.9 | 0.2 | -0.8 | 1.2 | 4.9 |
| Domestic credit | -6.1 | 6.1 | 6.4 | 11.9 | 1.8 | 0.4 | 0.8 | 1.7 | 6.1 |
| Claims on general government (net) | -15.4 | 4.5 | 9.4 | 10.0 | -1.3 | -3.6 | -5.5 | -5.1 | -1.2 |
| Claims on nongovernment | 13.5 | -3.1 | -3.0 | 1.9 | 3.1 | 4.0 | 6.2 | 6.8 | 7.4 |
| Other items (net) | -4.3 | 4.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| *Memorandum items:* | (Annual percent change) | | | | | | | | |
| Broad money (M2) | 6.1 | 1.6 | -1.1 | -0.5 | 0.8 | 1.1 | 1.9 | 2.1 | 3.2 |
| Reserve money (RM) | -32.6 | 5.3 | 1.5 | -8.1 | -11.8 | -9.8 | -9.8 | -1.5 | 1.9 |
| Credit to the economy | 23.6 | -2.0 | -5.3 | 3.1 | 5.1 | 6.4 | 9.8 | 9.9 | 10.1 |
| Credit to the private sector (in percent of non-oil GDP) | 25.1 | 22.6 | 20.6 | 19.4 | 18.5 | 18.0 | 18.1 | 18.2 | 18.5 |
| Broad money (in percent of overall GDP) | 24.8 | 24.4 | 25.6 | 26.3 | 24.2 | 22.5 | 21.1 | 20.0 | 19.2 |
| Government non-cash deposits in BEAC (billion CFA francs) | 205.0 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |

Sources: Gabonese authorities and IMF staff estimates and projections.

## Table 5. Gabon: Balance of Payments, 2013–21

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|---|---|---|
| | Est. | Est. | Prel. Est. | Proj. | | | | | |
| | (Billions of CFAF) | | | | | | | | |
| Current account | 1,034 | 743 | -157 | -740 | -665 | -571 | -500 | -450 | -394 |
| Goods (net) | 2,991 | 2,524 | 1,534 | 801 | 990 | 1,186 | 1,352 | 1,493 | 1,617 |
| Export of goods (fob) | 4,948 | 4,528 | 3,354 | 2,245 | 2,512 | 2,783 | 3,035 | 3,273 | 3,468 |
| Hydrocarbons | 4,198 | 3,800 | 2,565 | 1,468 | 1,642 | 1,814 | 1,949 | 2,024 | 2,051 |
| Timber | 185 | 234 | 266 | 303 | 352 | 408 | 470 | 564 | 677 |
| Manganese | 442 | 391 | 399 | 332 | 358 | 380 | 411 | 451 | 494 |
| Other | 123 | 103 | 125 | 142 | 160 | 181 | 205 | 233 | 246 |
| Import of goods (fob) | -1,957 | -2,004 | -1,820 | -1,443 | -1,522 | -1,597 | -1,683 | -1,779 | -1,851 |
| Petroleum sector | -583 | -616 | -416 | -238 | -266 | -294 | -316 | -310 | -305 |
| Other | -1,374 | -1,388 | -1,404 | -1,206 | -1,256 | -1,303 | -1,367 | -1,469 | -1,546 |
| Services (net) | -969 | -1,161 | -1,113 | -935 | -967 | -989 | -1,048 | -1,094 | -1,114 |
| Exports | 295 | 298 | 291 | 253 | 261 | 271 | 284 | 302 | 342 |
| Imports | -1,265 | -1,460 | -1,403 | -1,188 | -1,229 | -1,260 | -1,332 | -1,396 | -1,456 |
| Income (net) | -842 | -468 | -433 | -470 | -548 | -626 | -658 | -710 | -756 |
| Current transfers (net) | -146 | -152 | -146 | -136 | -140 | -143 | -146 | -139 | -141 |
| Capital account | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Financial account | -430 | -837 | 32 | 516 | 519 | 573 | 544 | 310 | 493 |
| Direct investment (net) | 381 | 500 | 369 | 417 | 448 | 470 | 479 | 528 | 578 |
| Portfolio investments (net) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other investment assets and liabilities (net) | -811 | -1,337 | -337 | 99 | 71 | 103 | 65 | -9 | -85 |
| Medium- and long-term transactions | 416 | 24 | 217 | 260 | 285 | 351 | 303 | 215 | 156 |
| Short term transactions | -1,227 | -1,362 | -554 | -162 | -214 | -249 | -238 | -224 | -242 |
| Errors and Omissions | -352 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Overall balance | 252 | -94 | -125 | -224 | -146 | 2 | 44 | 69 | 99 |
| Financing | -252 | 94 | 125 | 224 | 146 | -2 | -44 | -69 | -99 |
| Change in net foreign assets | -252 | 94 | 125 | 224 | 146 | -2 | -44 | -69 | -99 |
| Use of IMF credit and loans (net) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| *Memorandum items:* | | | | | | | | | |
| | (Percent of GDP) | | | | | | | | |
| Current account | 11.9 | 8.3 | -1.9 | -9.0 | -7.4 | -5.8 | -4.7 | -3.9 | -3.2 |
| Oil | 27.7 | 22.8 | 15.2 | 4.3 | 5.0 | 5.5 | 5.6 | 5.4 | 4.9 |
| Non-oil | -15.8 | -14.5 | -17.0 | -13.3 | -12.4 | -11.3 | -10.3 | -9.3 | -8.1 |
| Exports of goods and services | 60.3 | 53.7 | 43.0 | 30.5 | 30.9 | 31.2 | 31.3 | 31.2 | 30.9 |
| Imports of goods and services | -37.1 | -38.5 | -38.0 | -32.1 | -30.6 | -29.2 | -28.4 | -27.7 | -26.9 |
| Capital and financial accounts | -2.4 | -4.6 | 0.2 | 3.8 | 3.5 | 3.5 | 5.1 | 4.5 | 4.0 |
| Foreign Direct Investment | 4.4 | 5.6 | 4.3 | 5.1 | 5.0 | 4.8 | 4.5 | 4.6 | 4.7 |
| Overall balance | 1.4 | -0.5 | -0.9 | -1.7 | -1.0 | 0.0 | 0.4 | 0.6 | 0.8 |
| | (Billions of CFAF, unless otherwise indicated) | | | | | | | | |
| Gross official reserves imputed to Gabon | 1436.1 | 1347.3 | 1222.2 | 998.1 | 851.7 | 853.9 | 898.1 | 974.2 | 1081.6 |

Sources: Gabonese authorities and IMF staff estimates and projections.

## Table 6. Gabon: Financial Soundness Indicators for the Banking Sector, 2010–15

(Percent)

| | 2010 | 2011 | 2012 | 2013 | 2014 Q1 | 2014 Q2 | 2014 Q3 | 2014 Q4 | 2015 M2 |
|---|---|---|---|---|---|---|---|---|---|
| Capital | | | | | | | | | |
| Regulatory capital to risk-weighted assets[1, 2] | 24.7 | 12.9 | 10.9 | 12.3 | 12.0 | 11.8 | 10.7 | 9.4 | 11.6 |
| Capital to assets | 11.0 | 9.2 | 8.3 | 9.2 | 8.1 | 9.8 | 7.2 | 9.1 | 9.2 |
| Asset quality | | | | | | | | | |
| Non-performing loans (gross) to total loans (gross) | 3.2 | 2.8 | 2.5 | 2.7 | 2.7 | 2.8 | 8.1 | 4.1 | 4.4 |
| Non-performing loans less provisions to total capital | 1.4 | -3.3 | -1.7 | -0.3 | -0.6 | -1.0 | 29.9 | 0.2 | 8.3 |
| Earnings and profitability | | | | | | | | | |
| Return on assets[3] | 15.5 | 24.8 | 23.3 | 19.6 | -- | 15.2 | -- | 21.5 | -- |
| Return on equity | 2.3 | 2.2 | 1.9 | 1.6 | -- | 1.3 | -- | 1.7 | -- |
| Liquidity | | | | | | | | | |
| Liquid assets to total assets | 25.3 | 20.9 | 22.7 | 20.0 | 17.4 | 17.8 | 16.2 | 19.0 | 19.3 |
| Ratio of liquid assets to short-term liabilities | 158.5 | 185.7 | 283.1 | 220.2 | 186.8 | 201.1 | 209.6 | 194.0 | 176.8 |
| Total deposits to total (noninterbank) loans | 114.7 | 122.6 | 115.9 | 108.6 | 114.5 | 106.0 | 109.4 | 105.5 | 110.4 |

Source: Banking Commission of Central Africa (COBAC).

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

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

[3] Current year profits are excluded from the definition of capital (i.e., shareholders' funds).

## Table 7. Gabon: Stress Test Results: Macroeconomic Shocks

| Banking groups | No. of banks[1] | Prior to Shock: % of banks observing the solvency ratio | Prior to Shock: % of banks observing the liquidity ratio | After Macroeconomic Shock[2]: % of banks observing the solvency ratio | After Macroeconomic Shock[2]: % of banks observing the liquidity ratio |
|---|---|---|---|---|---|
| Gabon | 9 | 78 | 67 | 44 | 22 |
| All CEMAC Banks | 49 | 82 | 82 | 61 | 27 |
| Bank with capital in CEMAC | 12 | 42 | 67 | 25 | 33 |
| Bank with capital in SSA | 17 | 94 | 82 | 65 | 24 |
| Bank with capital outside CEMAC and SSA | 20 | 95 | 90 | 80 | 25 |

Source: 2015 IMF's FSAP.

[1]The data for one domestic Gabonese bank were not fully available.

[2]A 30 percent increase in doubtful loans in the sectors of extractive industries, construction and public works, transport and telecommunications, government departments, and households. A decline of 25 percent in deposits for non-financial enterprises, 50 percent for the public sector, and 10 percent for financial institutions and other sectors. A 30 percent increase in accounts receivable in the sectors of extractive industries, construction and public works, transport and telecommunications, government departments, and households. Two levels of deterioration as regards meeting the convergence criteria.

**Table 8. Gabon: Profitability and Size of Banks, 2013**

| | Assets (Percent of GDP) | Assets (Percent of total assets) |
|---|---|---|
| Publicly owned banks | 2.9 | 9.5 |
| Private banks | 28.0 | 90.5 |

Source: COBAC and IMF staff calculations.

## Table 9. Gabon: Millennium Development Goals

| | 1990 | 1995 | 2000 | 2005 | 2009 | 2012 |
|---|---|---|---|---|---|---|
| Goal 1: Eradicate extreme poverty and hunger | | | | | | |
| Employment to population ratio, 15+, total (%) | *60* | 60 | 60 | 61 | 62 | .. |
| Employment to population ratio, ages 15-24, total (%) | *40* | 41 | 40 | 39 | 38 | .. |
| Malnutrition prevalence, weight for age (% of children under 5) | .. | .. | *9* | .. | .. | 6 |
| Goal 2: Achieve universal primary education | | | | | | |
| Primary completion rate, total (% of relevant age group) | *70* | 68 | *72* | *69* | .. | 88 |
| Total enrollment, primary (% net) | .. | *92* | *82* | .. | .. | 96 |
| Goal 3: Promote gender equality and empower women | | | | | | |
| Proportion of seats held by women in national parliaments (%) | 13 | .. | 8 | 9 | 17 | .. |
| Ratio of female to male primary enrollment (%) | *100* | 99 | 100 | *99* | .. | 100 |
| Ratio of female to male secondary enrollment (%) | *86* | 82 | 86 | .. | .. | 110 |
| Ratio of female to male tertiary enrollment (%) | *42* | .. | *54* | .. | .. | .. |
| Share of women employed in the nonagricultural sector (% of total nonagricultural employment) | .. | *29.3* | .. | .. | .. | .. |
| Goal 4: Reduce child mortality | | | | | | |
| Immunization, measles (% of children ages 12-23 months) | 76 | 57 | 55 | 55 | 55 | 74 |
| Mortality rate, infant (per 1,000 live births) | 68 | 65 | 63 | 59 | 55 | 43 |
| Mortality rate, under-5 (per 1,000) | 93 | 89 | 88 | 82 | 75 | 65 |
| Goal 5: Improve maternal health | | | | | | |
| Adolescent fertility rate (births per 1,000 women ages 15-19) | .. | *130* | 116 | 97 | 86 | 114 |
| Births attended by skilled health staff (% of total) | .. | .. | 86 | .. | .. | 89 |
| Contraceptive prevalence (% of women ages 15-49) | .. | .. | 33 | .. | .. | 31 |
| Maternal mortality ratio (modeled estimate, per 100,000 live births) | 260 | 250 | 260 | 260 | *260* | *316* |
| Pregnant women receiving prenatal care (%) | .. | .. | 94 | .. | .. | 95 |
| Unmet need for contraception (% of married women ages 15-49) | .. | .. | 28 | .. | .. | 27 |
| Goal 6: Combat HIV/AIDS, malaria, and other diseases | | | | | | |
| Children with fever receiving antimalarial drugs (% of children under age 5 with fever) | .. | .. | .. | .. | .. | 26 |
| Condom use, population ages 15-24, female (% of females ages 15-24) | .. | .. | .. | .. | .. | 60 |
| Condom use, population ages 15-24, male (% of males ages 15-24) | .. | .. | .. | .. | .. | 78 |
| Incidence of tuberculosis (per 100,000 people) | 153 | 155 | 248 | 326 | 502 | 428 |
| Prevalence of HIV, female (% ages 15-24) | .. | .. | .. | .. | 3.5 | 2.4 |
| Prevalence of HIV, male (% ages 15-24) | .. | .. | .. | .. | 1.4 | 0.4 |
| Prevalence of HIV, total (% of population ages 15-49) | 0.9 | 3.1 | 5.2 | 5.4 | 5.2 | 1.5 |
| Tuberculosis case detection rate (%, all forms) | 65 | 66 | *73* | 56 | 41 | 71 |
| Goal 7: Ensure environmental sustainability | | | | | | |
| CO2 emissions (kg per PPP $ of GDP) | 0 | 0 | 0 | 0 | *0* | .. |
| CO2 emissions (metric tons per capita) | 5 | 4 | 1 | 1 | *2* | .. |
| Forest area (% of land area) | 85.4 | .. | 85.4 | 85.4 | *85.4* | *85.4* |
| Improved sanitation facilities (% of population with access) | .. | 36 | 36 | 33 | *33* | *38* |
| Improved water source (% of population with access) | .. | 84 | 85 | 86 | *87* | *89* |
| Marine protected areas (% of territorial waters) | 0 | 0 | 1 | 7 | 7 | 2 |
| Net ODA received per capita (current US$) | 141 | 132 | 9 | 44 | 52 | .. |
| Goal 8: Develop a global partnership for development | | | | | | |
| Debt service (PPG and IMF only, % of exports, excluding workers' remittances) | 5 | 15 | 9 | 3 | .. | .. |
| Internet users (per 100 people) | 0.0 | *0.0* | 1.2 | 4.9 | 6.7 | 8.6 |
| Mobile cellular subscriptions (per 100 people) | 0 | 0 | 10 | 54 | 93 | 180 |
| Telephone lines (per 100 people) | 2 | 3 | 3 | 3 | 2 | 1 |
| Fertility rate, total (births per woman) | 5 | 5 | 4 | 4 | 3 | 4 |

Source: Authorities and World Development Indicators

# Annex I. Gabon: Risk Assessment Matrix[1]

| Nature/Source of Risk | Likelihood | Expected Impact on Economy | Policy Responses |
|---|---|---|---|
| | | **Domestic Risks** | |
| **Insufficient adjustment of current spending.** | *M* | *H*. Loose current spending would force debt-financing and/or cuts in needed public investment and social spending. | Tighten fiscal policy, while shielding social spending and prioritizing financing of the PSGE. |
| **Political turmoil due to upcoming elections.** | *L* | *H*. Social turmoil would affect economic activity and government finances in an already tight fiscal situation. | Restrain fiscal policy, while properly financing security activities and shielding social spending. |
| **Financial turmoil due to difficulties in three public banks, especially severe liquidity problems in Post-Bank** | *M* | *M*. Turmoil motivated by generalized public distrust in banks, fueled by inadequate remedial actions could affect needed credit to several sectors. | Take decisive action to strengthen financial situation of public banks, most urgently Post-Bank. Will likely involve restructuring and recapitalization. |
| **Failure of full materialization of the diversification strategy due to insufficient fiscal space and structural reforms.** | *M* | *H*. Investment and growth would remain hampered by a poor business environment and over-reliance on a public sector-led growth model. | Implement structural reforms to enhance competitiveness. |
| **Loose fiscal and monetary policies in CEMAC, and regional institutional reform stalled.** | *M* | *H*. Continued loss of foreign exchange reserves. Regional integration and cooperation would remain limited. | Further tighten fiscal and monetary policy. Advocate for deeper regional institutional reforms. |
| | | **External Risks** | |
| **Persistently low energy prices** | *H* | *H*. Lower oil exports would sharply reduce government revenue and lead to increased public debt levels. Financing for infrastructure would be curtailed. | Restrain fiscal policy, while shielding social spending and prioritizing financing of the PSGE. |
| **Increased volatility in energy prices** | *M* | *H*. Increased volatility in oil prices due to uncertainty on the persistence of the oil shock could depress exploration activity and weaken long-term prospect for the oil sector. | Implement structural reforms to enhance competitiveness. |
| **Sharp asset price adjustment and decompression of credit spreads** | *H* | *H*. Financing of projected fiscal deficits would become more difficult and more costly. | Restrain fiscal policy (shielding social spending and prioritizing financing of the PSGE). Implement structural reforms to lower country risk. |
| **Structurally weak growth in key advanced and emerging economies, including China.** | *M* | *M*. Demand for non-oil exports and FDI would be reduced, and would negatively impact efforts of diversification. | Implement structural reforms to enhance competitiveness. |
| **Heightened risk of fragmentation/state failure/security dislocation in some countries in Africa** | *M* | *H*. Spread of regional political instability would affect economic activity and government finances in an already tight fiscal situation. | Restrain fiscal policy, while properly financing security activities and shielding social spending. |

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

# Annex II. Traction of Past IMF Recommendations

**1. Gabon's track record in implementing the recommendations of the previous Article IV consultation has improved substantially** (see Table 1)**.** The government eliminated some tax exemptions, reduced wage bill growth, eliminated subsidies to diesel and petrol, and liberalized fuel importation. On the other hand, several products have been added to the list of tax exemptions. Public finance management (PFM) reforms as part of the BOP reform should improve the quality of investment. An investment promotion agency has been set up to improve the business climate, important initial steps have been taken to improve economic statistics, and the government is taking action to strengthen weak public banks.

**Table 1. Status of Implementation of Key Recommendations from the 2014 Article IV Consultation**

| Recommendation | Status |
|---|---|
| Reducing tax exemptions and exonerations | Partly done, but new products added to list of exempted products as part of the "policies against expensive living costs". |
| Greater control of wage bill | Partly done; implemented reforms that curbed wage bill growth. |
| Phase out of fuel subsidies | Done; fuel importation was liberalized in 2015 and remaining petrol and diesel subsidies have been removed. |
| Improve quality of investment | Initial steps taken; public finance reforms being implemented. |
| Improve business climate | Initial steps taken; investment promotion agency being set up. |
| Address financial situation of weak public banks | Initial steps taken; notably the government appointed temporary administrators. |
| Improve economic statistics for surveillance | Initial steps taken; creation of national statistics agency, population census adopted, more timely data supply to the Fund, preliminary work towards high frequency indicators. |

Sources: 2014 Article IV staff report on Gabon and information from the authorities.

# Annex III. External Assessment

*Protracted oil-price shock and secularly declining oil production continue to hamper Gabon's external position as evidenced by recent trends in global trade shares. The Bems and Carvalho (2009) and Araujo et al. (2013) methodologies suggest that the real effective exchange rate (REER) is overvalued by 3 to 16 percent. This result is predicated on the sharp decline in the current account balance following the recent commodity price shock, notwithstanding the decline in the REER over the past year on account of the strong dollar.*

1. **Gabon's real effective exchange rate has declined since last 2014, after a long period of relative stability compared to CEMAC countries.** The downward pressures are attributable to the US dollar appreciation against the euro, to which the CFA franc is pegged, and low domestic inflation. Gabon's consumer price index, after averaging 4½ percent in 2014—owing to high level of international commodity prices—subsequently embarked on a downward trend through 2015, and is expected to remain low in the medium term.

2. **Results from the methodology of Bems and Carvalho[1] point to real exchange rate overvaluation of about 8 to 16 percent, assuming that trade balance elasticity relative to the real effective exchange rate is -0.6.** The norms from this first methodology, derived under the permanent income hypothesis and with no account for future returns on public investment, are significantly above Gabon's medium term current account path, given the current context of public investment scaling-up.

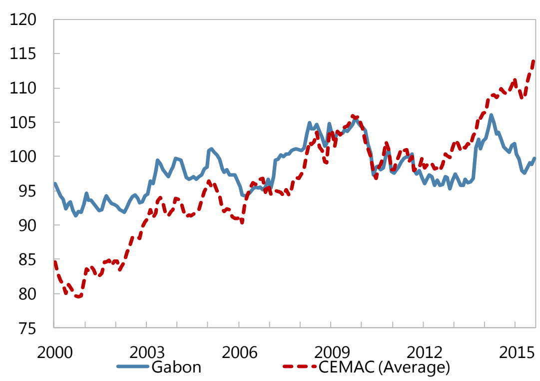
3. **The methodology of Araujo *et al*. (2013) is more appropriate in the current context to take into account the significant public investment in Gabon, and also suggests that the effective real effective exchange rate is overvalued.** This methodology solves for a current account norm resulting from a welfare maximization problem in which productive investment needs may be financed by contracting external debt to be repaid with income flows from oil resources windfalls. The model takes into account many frictions common to developing countries, and suggests an overvaluation of 3 and 7 percent under cost overrun assumptions of 60 and 40 percent, respectively. Higher cost overruns lead to relatively higher investment needs and imply a lower current account balance norm.

[1] The *Araujo et al. (2013)* methodology estimations were prepared by Nathalie Gonzalez.

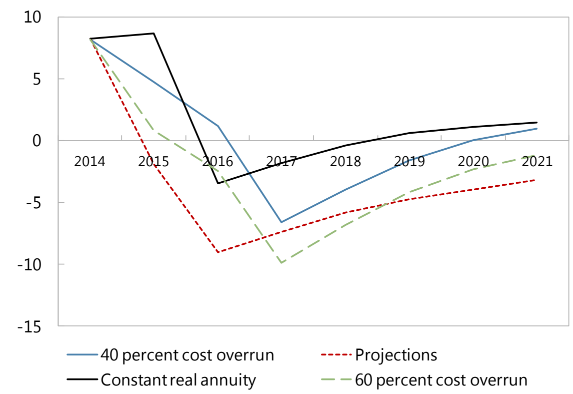
## Gabon: Real Effective Exchange Rate and Current Account Projections and Norms

(2010=100 and percent of GDP)

### Real Effective Exchange Rate




### Current Account Projections and Norms




Sources: IMF staff estimates and projections.

## Gabon: External Stability Assessment, 2021[1]

| | Bems and Carvalho | | Araujo et al. | Araujo et al |
|---|---|---|---|---|
| | Constant real annuity | Constant real per capita annuity | Cost overrun of 60 percent | Cost overrun of 40 percent |
| MT trade balance norm (Percent of GDP) | 1.5 | 6.1 | -1.2 | 1.0 |
| Underlying trade balance (Percent of GDP) | -3.2 | -3.2 | -3.2 | -3.2 |
| Trade balance elasticity [2] | 0.6 | 0.6 | 0.6 | 0.6 |
| Overvaluation (Percent) | 8.0 | 16.0 | 3.4 | 7.2 |

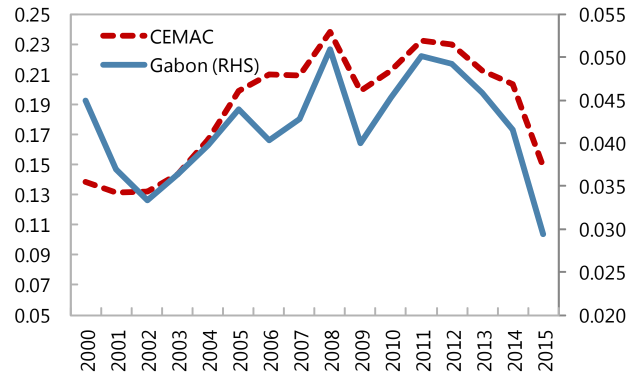
Source: IMF staff estimates.

[1]Based on Bems and Carvalho (2009) and on Araujo *et al.* (2013).

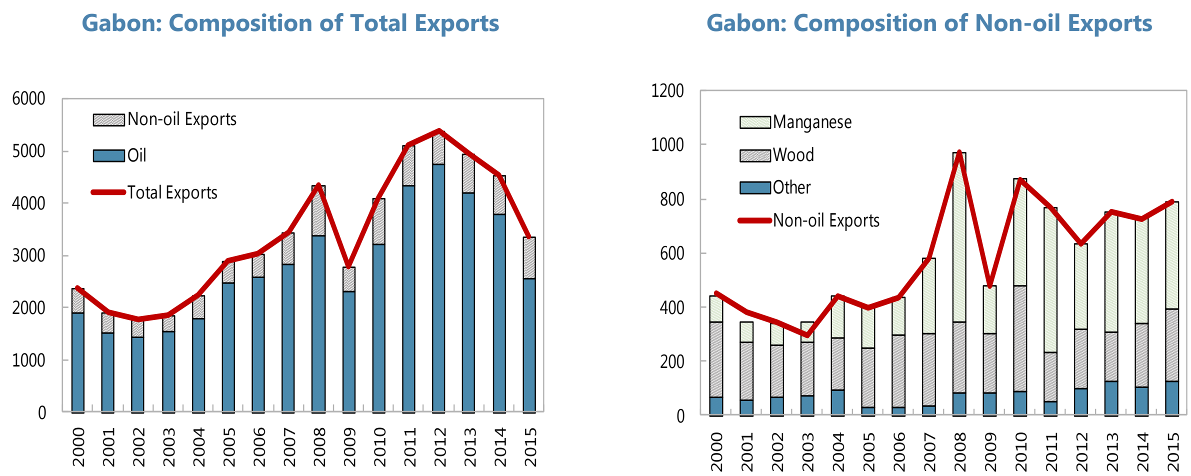
[2]Trade elasticity is estimated assuming exports volume and imports volume elasticities equal to zero (Hakura and Billmeier, 2008).

**4. The evolution of Gabon's share in global trade has coincided with oil price fluctuations, pointing to significant external sector vulnerabilities.** The country's high reliance on the oil sector has been demonstrated during recent oil-price slump episodes. During the 2008 oil-price shock, Gabon's exports share dropped to 0.04 percent from 0.05 percent. Starting from 2012, Gabon's share of global trade also shrunk as a result of secularly declining oil production, exacerbated in 2014 by the unfolding oil-price slump. The apparent vulnerability of Gabon's external sector stems from the weak diversification of its exports, with oil representing 84 percent of total exports in 2014 and 76 percent in 2015. The value of non-oil exports has somehow stagnated during past years, reinforcing the need for structural reforms to increase manganese, wood, and other exports. In particular, these reforms could target the weak productivity and structural bottlenecks that hinder competitiveness and amplify Gabon's external vulnerability (see Sections C and D of the staff report).

**CEMAC: Exports share**
(Percent of World Exports)




**Gabon: Exports composition**
(Billions of CFAF)




Sources: IMF staff calculations

INTERNATIONAL MONETARY FUND

# GABON

February 5, 2016

## STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX


Prepared By

The African Department
(in consultation with other departments)


## CONTENTS

- **Relations with the Fund.** Gabon has been a member of the International Monetary Fund since 1963. Central African Economic and Monetary Community (CEMAC) member countries accepted the obligations of Article VIII in June/July 1996. The three-year SBA for about US $118 million expired in May 2010, with only the first three reviews completed. Recurrent fiscal slippages made it difficult to sustain the Fund-supported program. The last Article IV Consultation was concluded on February 18, 2015.

- **Relations with the World Bank.** The World Bank is providing technical assistance on several areas, most importantly on statistics, public service wage bill, and institutional development. A US$ 58 million IBRD Loan for the Central African Regional and National Backbone project (CAB4) supporting the development of high speed telecommunication infrastructure was signed in May 2012. The World Bank has more recently approved two US$ 100 million loans, one to finance basic urban services and another to strengthen youth training.

- **Exchange rate regime**: Gabon is a member of CEMAC. The common currency, the CFA franc, is pegged at the fixed rate of 655.957 CFA franc per euro. Gabon's tax on wire transfers constitutes a restriction on the making of payments and transfers for current international transactions subject to approval under Article VIII, Section 2 (a) of the Articles of Agreement.

- **Statistical Issues.** Gabon has subscribed to the General Data Dissemination System (GDDS). While data are broadly adequate for surveillance purposes, staff analysis was affected by the timeliness and coverage of fiscal data, the poor quality of balance of payments and financial stability data, and the limited information on labor cost and productivity.

# RELATIONS WITH THE FUND

(As of December 31, 2015)

**Membership Status:** Joined September 10, 1963 Article VIII

| **General Resources Account:** | **SDR Million** | **%Quota** |
|---|---|---|
| Quota | 154.30 | 100.00 |
| Fund holdings of currency (Exchange Rate) | 153.47 | 99.46 |
| Reserve Tranche Position | 0.85 | 0.55 |

| **SDR Department:** | **SDR Million** | **%Allocation** |
|---|---|---|
| Net cumulative allocation | 146.72 | 100.00 |
| Holdings | 132.80 | 90.51 |

**Outstanding Purchases and Loans:** None

**Latest Financial Arrangements:**

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

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

| | | | Forthcoming | | |
|---|---|---|---|---|---|
| | 2016 | 2017 | 2018 | 2019 | 2020 |
| Principal | | | | | |
| Charges/Interest | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 |
| **Total** | 0.01 | 0.01 | 0.01 | 0.01 | 0.01 |

**Implementation of HIPC Initiative:** Not Applicable

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

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

**Safeguards Assessments:**

The *Banque des États d' Afrique Centrale* (BEAC) remains subject to close IMF monitoring of safeguards "rolling measures" in the context of new program requests and reviews for the Central African Economic and Monetary Community (CEMAC) countries. This follows governance challenges and control failures that emerged in 2009. A safeguards staff visit to the BEAC was last conducted in April 2015. Staff concluded that while the BEAC had continued the implementation of its reform plan, slippages had occurred and progress on implementing the safeguards rolling measures has been mixed, including on priority recommendations on amendments to the BEAC charter and adoption of an internationally recognized financial reporting framework (IFRS). The BEAC has requested IMF technical assistance to advance the implementation of the above two recommendations, and work is underway. Progress on implementation of the latter will remain subject to monitoring by the IMF, as a condition to continuing new program requests and reviews for CEMAC member countries.

**Exchange Rate Arrangement:**

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

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

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

**Article IV Consultations:**

Gabon is on a 12-month Article IV consultation cycle. The Executive Board concluded the last Article IV consultation with Gabon on February 18, 2015

**FSAP Participation and ROSCs:**

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

**Resident Representative:**

The Fund no longer has a resident representative nor a local economist in Libreville.

**Technical Assistance:**

## A. Central Africa Regional Technical Assistance Center (AFRITAC)

| *Area* | *Focus* | *Time of Delivery* |
|---|---|---|
| Revenue Administration | Customs/Tax collaboration-preventing/fighting frauds | Dec. 2015 |
| Public Debt management | Debt portfolio risk management | Oct. 2015 |
| Revenue Administration | LTO performance measurement and assessment | Sep. 2015 |
| Macroeconomic Statistics | Compilation of high frequency indicators | Aug. 2015 |
| Public Financial Management /Revenue Administration | Modernization tax and customs procedures (revenue assessment, collection, accounting) | Jul. 2015 |
| Banking Supervision | Development of an automated audit system | Jul. 2015 |
| Public Financial Management | Review / expansion of budget coverage | Jul. 2015 |
| Revenue Administration | LTO performance measurement and assessment | Apr. 2015 |
| Banking Supervision | Training of new supervisors—session 2 | Apr. 2015 |
| Revenue Administration | Customs/Tax collaboration preventing/fighting frauds | Mar. 2015 |
| Public Debt management | Review of operational procedures | Mar. 2015 |
| Banking Supervision | Training of new supervisors—session 1 | Mar. 2015 |
| Public Financial management | Manual of public expenses—accounting phase | Mar. 2015 |
| Revenue Administration | Customs/Tax collaboration preventing/fighting frauds | Feb. 2015 |
| Banking Supervision | Risk management and internal control | Feb 2015 |
| Revenue Administration | Further development of automated Customs risk management system | Nov. 2014 |
| Public Financial Management | Strengthening budget execution | Oct. 2014 |
| Banking Supervision | Workshop on financial stability | Sep. 2014 |
| Public Financial Management/Revenue Administration/Debt Management | Multisector workshop on development and implementation of government cash management frameworks | Sep. 2014 |
| Revenue Administration | Launching an automated performance assessment and measurement program for LTO | June 2014 |
| Revenue Administration | Developing an automated Customs risk management system | May 2014 |
| Revenue Administration | Strengthening VAT audits of commercial and trader operations | April 2014 |
| Revenue Administration | Improving collection and enforcement procedures | Mar. 2014 |
| Revenue administration | Modernizing VAT refund procedures for large taxpayers | Feb. 2014 |

## B. Headquarters

| *Department* | *Purpose* | *Time of Delivery* |
|---|---|---|
| FAD | Trust Fund Design | Sept. 2015 |
| FAD | Rationalization of Expenditure Chain | June 205 |
| FAD | PEFA assessment and PFM reforms | May 2014 |
| FAD | Custom administration | March 2014 |
| FAD | PEFA assessment | Dec. 2013 |
| FAD | Public finance management | July 2013 |
| FAD | Short term expert visit on PFM (4 visits) | 2013–14 |
| FAD | Short term expert visit on Customs (5 visits) | 2013–14 |

# RELATIONS WITH THE WORLD BANK

| Title | Products | Provisional timing of missions | Expected delivery date |
|---|---|---|---|
| **A. Mutual information on relevant work programs** | | | |
| The World Bank work program in the next 12 months | **World Bank advisory services** are ongoing in the following areas: | | |
| | - **Statistics:** Under the US$1.3 million Statistics Reimbursable Advisory Services (RAS) the Bank will provide long-term strategic advice to the national statistics office and the implementation of the national statistics strategy and a targeted assistance for the implementation of a new household survey - *Enquête Gabonaise pour l'Evaluation de la Pauvreté* (EGEP II). | Missions to be spread over FY 16 | June 2016 |
| | - **Tax system reform:** Through the US$1 million Tax System Reform RAS which is a follow up of the diagnostic of tax system carried out under the first RAS signed in 2012, the Bank is assisting the authorities on the rationalization of the tax exemptions system, the rationalization of the tax structure, and the implementation of a risk-based audit system. | Missions to be spread over FY16 and FY 17 | December 2016 |
| | - **Two studies on Energy and Water**, financed under the AFREA Trust Fund (US$1.3 million) to assist the government of Gabon (GoG) in the operationalization of a sustainable delivery model for basic electricity and water services in rural areas. This new model is based on two pillars: (i) delegation of responsibility for service provision to specialized O&M operators, and (ii) sustainable long-term financing combining cost recovery and subsidies. O&M operators will be competitively selected and will be in charge of installing equipment, carrying out O&M, and recovering payment for service in their regional service areas. Payments to the operators will depend on the effective delivery of services. | March 2016 | September 2016 |

| | | | |
|---|---|---|---|
| | - **Public Financial Management (Phase II).** A pilot for program budgeting was undertaken in 11 ministries in 2013. In May 2015, a new PFM Act was adopted that makes mandatory the use of procurement, commitment, and treasury plans. The use of such plans, with the support of the PFM II RAS, will enable the roll-out of program budgeting. The PFM II RAS is also supporting (i) the operationalization of the public procurement regulatory agency and (ii) and the consolidation of program budgeting approach.<br><br>- **Institutional Development Fund** amounting to US$350,000 supporting (i) the professionalization of the Supreme Audit Institution (SAI)'s staff in performance audit, (ii) the revision of the institution Organic Law, and (iii) the reinforcement of the relation between the SAI and its external stakeholders.<br><br>- **Forestry study**: This Technical Assistance (TA) has for objective to assess of the impact on the economy and on the sector of the 2010 ban of log export, and to assess the potential of the sector to contribute to economic diversification through a better performing wood processing sector.<br><br>- **Public sector wage bill:** This Technical Assistance (TA) has for objective to help the Government control the total wage bill, notably by helping design some possible reforms that would enable a better control of the public wage bill. | n/a<br><br>n/a<br><br>Preparation mission is scheduled for January 2016<br><br>n/a | December 2016<br><br>n/a<br><br>December 2016<br><br>May 2016 |
| | **Health Financing report.** This study provides a discussion on health financing in Gabon; it aims at informing the development of a national health financing strategy by the Government. | Completed | Delivered in June 2014 |
| | **Export Diversification and Competiveness Policy note.** This note synthesizes Gabon's non-oil export potential provides sector-specific recommendations to address the challenges of export diversification. | Completed | Delivered in September 2014 |

| | | | |
|---|---|---|---|
| | **World Bank lending:**<br>- A US$18 million Investment Promotion and Competitiveness project was approved in March 2014. The objective of the Project is to contribute to the improvement of the investment climate and foster enterprise development in Gabon. The Project consists of three components: (i) institutional development to improve business climate; (ii) support to enterprise development and; (iii) project coordination and public-private dialogue. | The last mission took place in June 2015 | The project became effective in March 2015 |
| | - A US$58 million IBRD Loan for the Central African Regional and National Backbone project (CAB4) was approved in March 2012 and became effective in March 2013. The objective of the Project is to contribute to increase geographical reach and usage of regional broadband network services and reduce their prices in the territory of the Gabonese Republic. The project components consist of: (i) Enabling environment; (ii) Connectivity; and (iii) Project management. | Last supervision mission took place in September 2015. Next supervision missions scheduled Q3 FY16 and Q2FY17. | 5 year project |
| | - A US$60 million Access to Basic Services in Rural Areas and Capacity Building Project (Energy) approved by the Board of the Bank on September 17, 2015. Its objectives are to expand access to water and energy services in targeted rural areas and to establish mechanisms to improve sustainability of service provision. | March 2016 | 5 year project |
| | - A US$7.5 million GEF wetlands grant aims to enhance protection of biodiversity in selected forested wetlands on the Ramsar list through knowledge creation and development of conservation measures for sustainable wetlands management. | The project is effective. Last supervision mission took place in October 2015 | 5 year project. Expected closing date in April 2020 |
| | - A US$100 million Infrastructure and Local Development Program II was approved in December 2015. It aims at improving access to urban infrastructure and services in selected underserviced neighborhoods and to build basic capacities for municipal management in target cities. | First supervision mission is scheduled in FY16 | 5 year project |

| | | | |
|---|---|---|---|
| | - A US$100 million Skills for Employability Support Project is ongoing. The overarching objective of the project is supporting youth employability in Gabon to address the twin goals of promoting shared prosperity and reducing extreme poverty.<br><br>- A US$9.33 million Wildlife and Human-Elephant Conflict Management Project is planned. It will help finance the management of four parks in South Gabon (Loango, Moukalaba-Doudou, Mayumba and Waka). In addition to providing funds to fight poaching, it will be supporting local communities in the area of park management, including eco-tourism and other income-generating activities.<br><br>- A US$23 million Additional Financing (AF) to scale up the fourth series of projects (SOP4, formerly APL4) of the Central African Backbone (CAB) Program (P122776) coupled with a level two restructuring to extend the project closing date is under preparation.<br><br>- A US$56million e-Gabon project is under preparation. The objective of the Project is to increase the efficiency of public health management and services delivery by rolling out a new National Health Information System - aligning the efficiency of Information and Communications Technology with practitioners' needs - and to advance the development of a digital innovation ecosystem in Gabon to seize opportunities arising from eHealth applications and services | The last mission took place in December 2015 for the negotiation<br><br>Preparation mission (PAD designing) scheduled in January 2016<br><br>Appraisal mission scheduled in February 2016<br><br>Appraisal mission scheduled in February 2016 | The board date is February 10, 2016. The Implementation start date is July 2016 and end is December 2021<br><br>5 years project. Expected implementation end date in May 2021.<br><br>Board date tentatively scheduled March 2016<br><br>Board date tentatively scheduled March 2016 |
| | **IFC investments:**<br><br>The IFC will support the productive sectors and enabling environment to boost private sector-led growth and promote economic diversification. Building on its ongoing portfolio, the IFC aims to increase private sector participation (through PPP projects) in physical infrastructure (power generation and transport), value creation in the oil | Missions to be spread over CY 2015 | |

| | | | |
|---|---|---|---|
| | and gas industry, diversification of activity in non-oil sectors (agribusiness, forestry and petrochemical projects), and investment climate reforms.<br><br>- SETRAG (privately owned and operated national rail company). IFC is considering support for the rehabilitation of the track infrastructure between Libreville and Franceville and the acquisition of new rolling stock for the replacement and expansion of transport capacity. To this end, IFC is instructing the mobilization of a commercial loan to SETRAG from its own account and from other DFIs including PROPARCO, the private arm of the *Agence Française de Développement* (AFD).<br><br>- Aéroport de Libreville (ADL - Libreville Airport Concessionaire): IFC has signed a mandate to assist ADL with the rehabilitation and expansion of the Libreville Airport passenger facilities. IFC will provide a loan and will help ADL in raising funds.<br><br>- Vaalco Gabon: A loan has been accorded in September 2013 to Vaalco Gabon to finance the company's oil exploration and development programs under the offshore Etame Permit. The project comprises: (i) the construction of two new platforms and associated facilities; (ii) the construction of production wells; and (iii) the installation of crude sweetening facilities.<br><br>- Libreville ring road: IFC currently scoping a possible toll road project that it could help structure and finance. | | |
| | **B. Requests for work program inputs** | | |
| Bank request to Fund | Article IV documents | | FY16 |
| | **C. Agreement on joint products and missions** | | |
| Joint products in the next 12 months | Collaboration on various data issues | | Ongoing |

# STATISTICAL ISSUES

| GABON—STATISTICAL ISSUES APPENDIX<br>As of January 20, 2016 |
|---|
| **I. Assessment of Data Adequacy for Surveillance** |
| **General.** Data provision has some shortcomings, but is broadly adequate for surveillance. Staff's analysis is affected by shortcomings in the accuracy, reliability and adequacy of periodicity and timeliness for certain data, as well as consistency between datasets. The statistical producing agencies do not have sufficient access to source data and lack an institutional framework in which to share information and coordinate compilation efforts. To monitor progress in the implementation of PSGE, household surveys should be conducted and disseminated regularly.<br><br>Gabon participates in the General Data Dissemination System (GDDS), but has not updated the metadata or plans for improvement since 2002. Except for consumer prices, the authorities do not report any real sector or government finance statistics (GFS) to STA for publication in *International Financial Statistics (IFS)* or for electronic dissemination. Detailed economic and financial statistics, including long historical time series, are published in the *Tendances de l'Économie*, issued twice a year by the General Directorate of Statistics and Economic Studies (DGSEE) of the Minister of Sustainable Development, Economy, Investment Promotion and Prospective. More recent sectoral developments are described in detail in the *Tableau de Bord de l'Économie*, issued quarterly by the Ministry of the Sustainable Development. Due to capacity constraints, Gabon does not provide IIP data, which is required for all IMF members under Article VIII, Section 5. The authorities have not taken any step to fill this gap. |
| **National Accounts.** Central AFRITAC (AFC) is working with authorities to incorporate the System of National Accounts 1993 methodological recommendations. A new series of national accounts, covering the period 2001-2009 has been prepared. Compilation of national accounts for 2010-2013 is underway, and the whole new series should be released soon after the 2010-2013 accounts have been completed. AFC is also assisting Gabon with the implementation of quarterly national accounts and related indicators.<br><br>**Employment and unemployment.** Data on unemployment and the total labor force are not systematically available. |
| **Price Statistics.** In 2007 the authorities began publishing an improved CPI index, which covers the same basket of goods and services as the Central African Economic and Monetary Community (CEMAC) Harmonized Consumer Price Index (HCPI) and uses a weighting scheme derived from Gabon's 2005 household expenditure survey. The CPI only covers the capital city of Libreville. |
| **Government Finance Statistics.** A major shortcoming is limited institutional coverage, as social security operations are not included in the Statement of Operations of either the central or the general government. Audited accounts of oil sector operations are generally available annually and sometimes quarterly, but with a significant reporting lag. Other needed improvements include the recording of government-owned capital formation financed by oil companies and the recording of government arrears. Data provided for surveillance purposes are based on *GFSM 1986*. Gabon does not provide GFS |

| |
|---|
| data to the IMF for inclusion in the *Government Finance Statistics Yearbook* nor the *International Financial Statistics*. |
| **Monetary and Financial Statistics.** The Bank of Central African States (BEAC) regularly reports in electronic form monthly monetary, interest rate, and exchange rate statistics for Gabon and other CEMAC member countries for publication in the *IFS*, but delays occur sometimes in the submission of data. Institutional coverage of the monetary statistics for Gabon is comprehensive, but accuracy is affected by cross-border movements of currency among CEMAC member countries.<br>In mid-2007, the BEAC started a project to migrate monetary statistics of CEMAC member countries to the methodology of the *Monetary and Financial Statistics Manual (MFSM)*. As part of this project, a regional workshop was organized by the BEAC in December 2007 to finalize the mapping of source data from commercial banks to the *MFSM* concepts and framework. STA participated in this workshop to provide guidance and advice. The BEAC has recently submitted test monetary data for Gabon using the standardized report forms for the period January 2000–December 2007. |
| **Financial Sector Surveillance.**<br>Gabon Does not report Financial Soundness Indicators (FSIs) to STA. |
| **External Sector Statistics.** Balance of payments statistics are compiled by the national directorate of the BEAC and the estimates are validated by staff from BEAC headquarters. Data are disseminated with considerable delay and they have not been submitted for publication in the *IFS* since 2006. Since 1995, compilation of balance of payments statistics has conformed to the *Balance of Payments Manual*, 5th edition. Source data are collected through: (i) surveys of enterprises by the central bank (the 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 banknote movements between Gabon and other BEAC countries. External trade data are mostly based on estimates, which are not cross-checked with customs data. Data on other items of the current account are not very reliable or accurate due to low response rates to enterprise surveys, despite partial correction through adjustments. Foreign direct investment in the financial account is likely to be underestimated owing to insufficient detail in the oil sector survey. The magnitude and detailed breakdown of private capital flows, particularly short term, suffer because data are not comprehensive.<br><br>There are comprehensive data on the stock of external public debt and its composition, as well as detailed projections on debt service due. Data are provided, usually to Fund missions, by the General Directorate of Public Debt (*Direction générale de la dette publique*) of the Minister of Sustainable Development, Economy, Investment Promotion and Prospective. |

## Gabon: Table of Common Indicators Required for Surveillance

(As of January 28, 2016)

| | Date of latest observation (For all dates in table, please use format dd/mm/yy) | Date received | Frequency of Data[7] | Frequency of Reporting[7] | Frequency of Publication[7] |
|---|---|---|---|---|---|
| Exchange Rates | Dec. 2012 | Dec. 2012 | D | D | D |
| International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1] | Oct. 2015 | Jan. 2016 | M | M | M |
| Reserve/Base Money | 10/15 | 1/5/16 | M | M | M |
| Broad Money | 10/15 | 1/5/16 | M | M | M |
| Central Bank Balance Sheet | 10/15 | 1/5/16 | M | M | M |
| Consolidated Balance Sheet of the Banking System | 10/15 | 1/5/16 | M | M | M |
| Interest Rates[2] | 03/15 | n.a. | M | M | M |
| Consumer Price Index | 10/15 | n.a. | M | M | M |
| Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4] | 08/14 | 23/10/14 | M | Q | N/A |
| Revenue, Expenditure, Balance– Central Government | Sep. 2015 | n.a. | M | Q | N/A |
| Stocks of Central Government and Central Government-Guaranteed Debt[5] | Dec. 2011 | Dec. 2012 | Q | Q | N/A |
| External Current Account Balance | Dec. 2011 | Dec. 2012 | I | M | A |
| Exports and Imports of Goods and Services | Dec. 2011 | Dec. 2012 | M | M | I |
| GDP/GNP | 2008 | Dec. 2012 | A | I | A |
| Gross External Debt | Dec. 2011 | Dec. 2012 | Q | I | I |
| International Investment Position[6] | N/A | N/A | N/A | N/A | N/A |

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

# GABON

February 5, 2016

## STAFF REPORT FOR THE 2015 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

Prepared By
**Anne-Marie Gulde-Wolf (AFR) and Bob Traa (SPR)**

Prepared by the staff of the International Monetary Fund

*While Gabon's public and external debt remain at moderate levels, they have considerably increased since the previous Debt Sustainability Analysis (DSA), published last year. In the context of plummeting oil prices and with the need to repay large arrears, the overall fiscal balance on a cash basis reached 9 percent of GDP 2015. Under a baseline scenario that assumes that a substantial adjustment takes place, debt is projected to reach 50 percent of GDP in 2016, exceeding the government's public debt ceiling (of 35 percent of GDP), and gradually decline only from 2020. Lower than projected GDP growth, fiscal revenues, or current account balances could lead to a dramatic increase in debt indicators, far above the CEMAC ceiling.*

# PUBLIC DEBT SUSTAINABILITY ANALYSIS

**1. Public debt level and structure.** Gabon's public debt stood at CFAF 3,177 billion (US$5.4 billion) by end-September 2015. It has rapidly increased this decade as the government sought funds to finance the PSGE, to build the infrastructure needed for the soccer African Cup of Nations in 2012 (jointly with Equatorial Guinea), and more recently, to make up for lower revenues following the oil price shock. Thus, from approximately 16.7 percent of GDP in 2008, total public debt reached 32.6 in 2014 and is projected to have increased further to 43 percent in 2015. The increase in the debt ratio from 2014 to 2015 was largely due to the issuance of a US$500 million Eurobond in June, the Euro-CFAF depreciation, and the considerable decline in nominal GDP resulting from the collapse in oil prices. About two-thirds of the increase in the debt-to-GDP ratio since 2014 is due to the depreciation of the CFA and the decline in the oil GDP deflator. Gabon's government debt is mostly external (external debt accounted for 85 percent of total public debt in 2014) and medium-to-long term. It is worth noting that while the CEMAC regional group sets a public debt ceiling at 70 percent of GDP (deemed too high in recent CEMAC regional surveillance staff reports), Gabon sets a more conservative ceiling of 35 percent of GDP, which was surpassed in 2015.

**Table 1. Gabon: Public Debt Stock by Components in 2013–15**

(CFAF billion)

| | 2013 | 2014 | Sep-15 |
|---|---|---|---|
| **External Debt** | **2,039.0** | **2,454.1** | **2,912.9** |
| Bilateral | 461.8 | 573.3 | 746.4 |
| *of which: Paris Club* | *47.4* | *40.2* | *36.7* |
| Multilateral | 262.1 | 350.8 | 359.2 |
| Commercial | 496.4 | 602.7 | 535.9 |
| International Financial Markets | 818.7 | 927.2 | 1,271.5 |
| **Domestic Debt** | **244.2** | **176.9** | **264.8** |
| Banking | 76.4 | 44.5 | 44.5 |
| Moratory | 83.8 | 56.4 | 48.7 |
| Regional Financial Markets | 69.5 | 62.6 | 159.7 |
| Other | 14.5 | 13.4 | 11.9 |
| **Total Public Debt** | **2,283.2** | **2,631.0** | **3,177.7** |

Source: Gabonese authorities.

**2. Baseline scenario.** The proposed baseline scenario reflects projections made in the macroeconomic framework described in Tables 1 to 6 of the staff report. Staff's baseline scenario assumes that non-oil revenue base would be widened over time with the elimination of overly generous tax exemptions; wages and salaries would remain constant in real terms; and capital spending would grow at a rate lower than non-oil GDP growth. International oil and other commodity prices, as well as exchange rates reflect *World Economic Outlook* projections through 2021. The public DSA shows that the macroeconomic framework presented in this staff report would result in debt levels that reach 50 percent of GDP in 2016 and decrease only from 2020.

**3. Shocks.** A historical scenario, in which the fiscal balance is much higher than in the baseline, translates into a reduction in public debt levels over the projection period (see Figure 1). On the other hand, a 1 percentage point decline in real GDP growth in the projection period (a supply shock) combined with a reduction in government revenues by 2 percentage points of GDP would lead to a sharp increase in public debt up to 85 percent of GDP by 2021. A contingency liability shock would have a smaller impact on the debt-to-GDP ratio, but would still bring it above CEMAC's 70 percent ceiling.[22]

[22] This scenario assumes a one-time increase in non-interest expenditures equivalent to 10 percent of banking sector assets leads to a real GDP growth shock (see above): growth is reduced by 1 standard deviation for 2 consecutive years; revenue-to-GDP ratio remains the same as in the baseline; deterioration in primary balance lead to higher interest rate; decline in growth leads to lower inflation.

# Table 2. Gabon: Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario

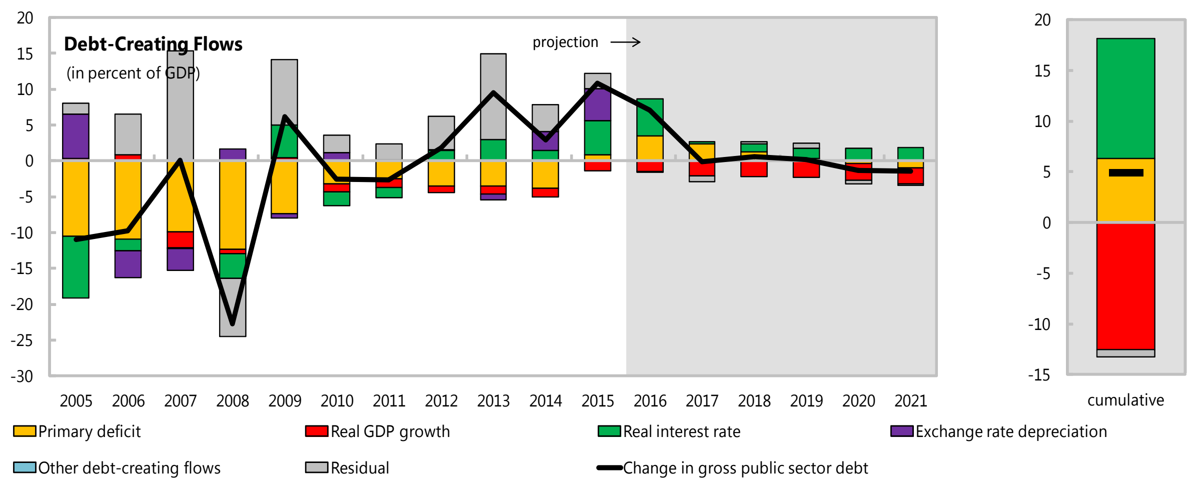
(in percent of GDP unless otherwise indicated)

## Debt, Economic and Market Indicators [1/]

| | Actual | | | Projections | | | | | | As of January 12, 2016 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2005-2013 [2/] | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | Sovereign Spreads | | |
| Nominal gross public debt | 28.4 | 32.2 | 43.0 | 50.1 | 49.9 | 50.5 | 50.7 | 49.3 | 47.9 | EMBIG (bp) 3/ | | 569 |
| Public gross financing needs | -1.0 | -0.7 | 5.2 | 8.0 | 10.2 | 7.9 | 7.0 | 6.9 | 5.9 | 5Y CDS (bp) | | n.a. |
| Real GDP growth (in percent) | 3.0 | 4.3 | 4.0 | 3.2 | 4.5 | 4.7 | 4.9 | 5.0 | 4.9 | Ratings | Foreign | Local |
| Inflation (GDP deflator, in percent) | 6.2 | -0.9 | -9.3 | -6.3 | 4.8 | 4.0 | 3.4 | 2.8 | 2.6 | Moody's | Ba3 | Ba3 |
| Nominal GDP growth (in percent) | 9.5 | 3.4 | -5.6 | -3.3 | 9.5 | 8.9 | 8.4 | 7.9 | 7.6 | S&Ps | B | B |
| Effective interest rate (in percent) [4/] | 6.1 | 4.4 | 4.3 | 5.0 | 5.8 | 6.6 | 6.7 | 6.9 | 6.9 | Fitch | B+ | B+ |

## Contribution to Changes in Public Debt

| | Actual | | | Projections | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2005-2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | cumulative | debt-stabilizing primary balance [9/] |
| Change in gross public sector debt | -3.5 | 2.9 | 10.8 | 7.1 | -0.2 | 0.6 | 0.2 | -1.4 | -1.4 | 4.9 | |
| Identified debt-creating flows | -8.4 | -0.9 | 8.7 | 7.3 | 0.6 | 0.3 | -0.5 | -0.8 | -1.2 | 5.7 | |
| Primary deficit | -7.1 | -3.8 | 0.9 | 3.6 | 2.4 | 1.3 | 0.3 | -0.3 | -0.9 | 6.3 | -0.3 |
| Primary (noninterest) revenue and grants | 28.9 | 26.1 | 21.4 | 19.3 | 19.7 | 20.0 | 20.4 | 20.6 | 20.8 | 120.9 | |
| Primary (noninterest) expenditure | 21.9 | 22.4 | 22.2 | 22.9 | 22.1 | 21.3 | 20.7 | 20.3 | 19.9 | 127.3 | |
| Automatic debt dynamics [5/] | -1.4 | 2.9 | 7.8 | 3.7 | -1.7 | -1.0 | -0.8 | -0.5 | -0.3 | -0.7 | |
| Interest rate/growth differential [6/] | -1.5 | 0.3 | 3.4 | 3.7 | -1.7 | -1.0 | -0.8 | -0.5 | -0.3 | -0.7 | |
| Of which: real interest rate | -0.9 | 1.5 | 4.8 | 5.1 | 0.3 | 1.1 | 1.5 | 1.8 | 1.9 | 11.8 | |
| Of which: real GDP growth | -0.6 | -1.2 | -1.4 | -1.4 | -2.1 | -2.2 | -2.3 | -2.3 | -2.2 | -12.5 | |
| Exchange rate depreciation [7/] | 0.1 | 2.6 | 4.5 | ... | ... | ... | ... | ... | ... | ... | |
| Other identified debt-creating flows | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Please specify (1) (e.g., drawdown of deposits) (negative | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Contingent liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Please specify (2) (e.g., ESM and Euroarea loans) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Residual, including asset changes [8/] | 5.0 | 3.8 | 2.1 | -0.2 | -0.8 | 0.3 | 0.7 | -0.5 | -0.2 | -0.7 | |




1/ Public sector is defined as central government.
2/ Based on available data.
3/ Long-term bond spread over German bonds.
4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.
5/ Derived as [(r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate;
a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).
6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.
7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.
9/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

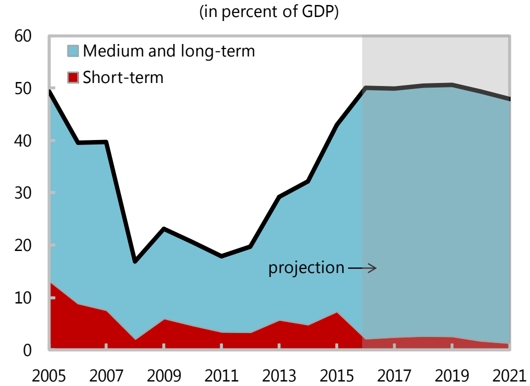
Source: IMF staff.

## Figure 1. Gabon: Public DSA - Composition of Public Debt and Alternative Scenarios

### Composition of Public Debt

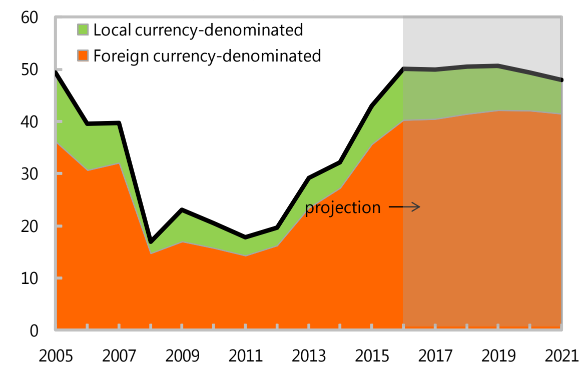
**By Maturity**

(in percent of GDP)

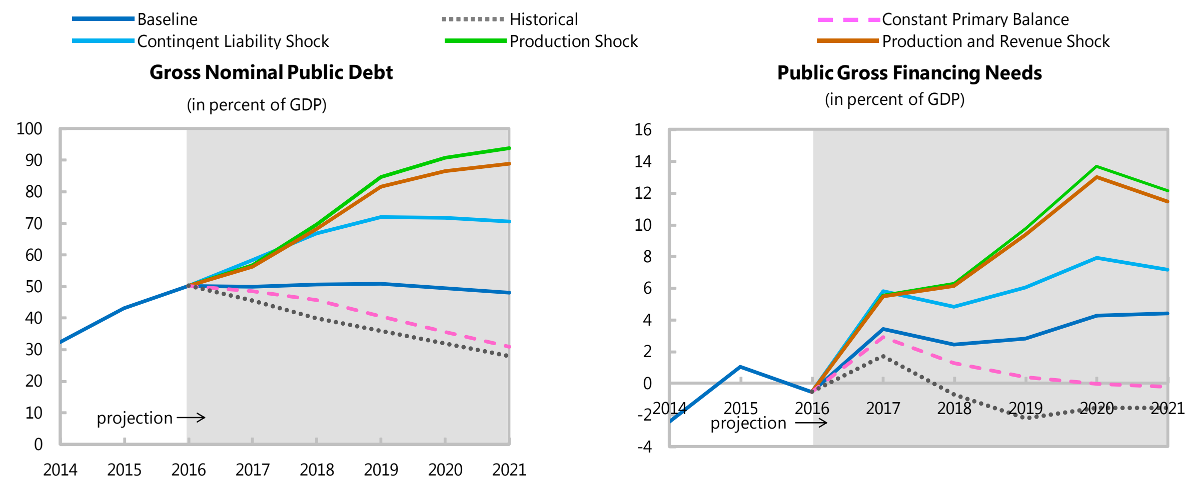



**By Currency**

(in percent of GDP)




### Alternative Scenarios




### Underlying Assumptions

(in percent)

| Baseline Scenario | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|
| Real GDP growth | 3.2 | 4.5 | 4.7 | 4.9 | 5.0 | 4.9 |
| Inflation | -6.3 | 4.8 | 4.0 | 3.4 | 2.8 | 2.6 |
| Primary Balance | 5.0 | 4.4 | 4.2 | 3.8 | 3.0 | 2.4 |
| Effective interest rate | 5.0 | 5.8 | 6.6 | 6.7 | 6.9 | 6.9 |
| **Constant Primary Balance Scenario** | | | | | | |
| Real GDP growth | 3.2 | 4.5 | 4.7 | 4.9 | 5.0 | 4.9 |
| Inflation | -6.3 | 4.8 | 4.0 | 3.4 | 2.8 | 2.6 |
| Primary Balance | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 | 5.0 |
| Effective interest rate | 5.0 | 5.8 | 6.7 | 7.1 | 7.9 | 8.6 |
| **Production Shock** | | | | | | |
| Real GDP growth | 3.2 | 2.5 | 2.7 | 2.9 | 3.0 | 2.9 |
| Inflation | -6.3 | 4.8 | 4.0 | 3.4 | 2.8 | 2.6 |
| Primary Balance | 5.0 | 2.4 | 2.2 | 1.8 | 1.0 | 0.4 |
| Effective interest rate | 5.0 | 5.8 | 6.3 | 5.8 | 5.5 | 5.3 |

| Historical Scenario | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|---|
| Real GDP growth | 3.2 | 3.6 | 3.6 | 3.6 | 3.6 | 3.6 |
| Inflation | -6.3 | 4.8 | 4.0 | 3.4 | 2.8 | 2.6 |
| Primary Balance | 5.0 | 6.2 | 6.2 | 6.2 | 6.2 | 6.2 |
| Effective interest rate | 5.0 | 5.8 | 7.0 | 7.8 | 8.8 | 9.6 |
| **Contingent Liability Shock** | | | | | | |
| Real GDP growth | 3.2 | 1.1 | 1.3 | 4.9 | 5.0 | 4.9 |
| Inflation | -6.3 | 4.0 | 3.2 | 3.4 | 2.8 | 2.6 |
| Primary Balance | 5.0 | 2.7 | 4.2 | 3.8 | 3.0 | 2.4 |
| Effective interest rate | 5.0 | 6.4 | 6.4 | 6.0 | 6.0 | 5.9 |
| **Production and Revenue Shock** | | | | | | |
| Real GDP growth | 3.2 | 3.5 | 3.7 | 3.9 | 4.0 | 3.9 |
| Inflation | -6.3 | 4.8 | 4.0 | 3.4 | 2.8 | 2.6 |
| Primary Balance | 5.0 | 4.4 | 4.2 | 3.8 | 3.0 | 2.4 |
| Effective interest rate | 5.0 | 5.8 | 6.3 | 5.8 | 5.5 | 5.3 |

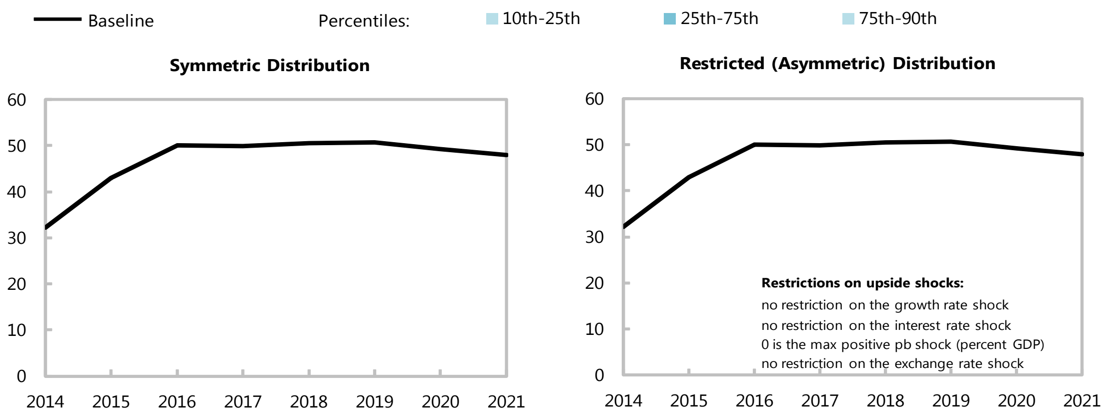
Source: IMF staff.

## Figure 2. Gabon: Public DSA Risk Assessment

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

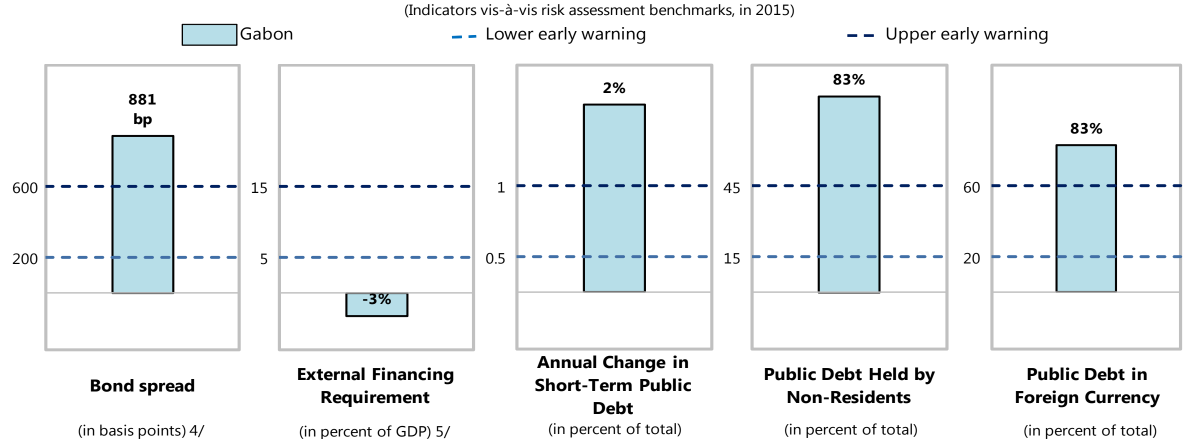
### Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)




### Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2015)




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

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

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

Lower and upper risk-assessment benchmarks are:

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

4/ Long-term bond spread over German bonds, an average over the last 3 months, 14-Oct-15 through 12-Jan-16.

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

Source: IMF staff.

# EXTERNAL DEBT SUSTAINABILITY ANALYSIS

**4. External debt level and structure.** After a considerable restructuring and consequent reduction in the late 2000s, Gabon's external debt went up from US$2.1 billion in 2009 to about US$4.3 billion in 2013 (equivalent to 24.8 percent of 2013 GDP). Such an increase is partly the result of the issuance of a US$1.5 billion Eurobond in 2013 (US$ 610 million of which was used for partial repayment of a US$1 billion Eurobond issued in 2007) and later US$500 million in 2015. By end-2014, debt to multilateral institutions accounted for 14 percent of total external debt, bilateral debt for 23 percent, debt to commercial institutions and debt placed in financial markets accounted for the remaining 63 percent.

**5. Baseline scenario.** The baseline scenario is the same as in the public debt sustainability analysis, reflecting projections made in the macroeconomic framework described in Tables 1 to 6 of the staff report. With respect to external debt, the macroeconomic framework assumes that the international bond for US$1 billion that was issued in 2007 is rolled over. Under this scenario, the external debt sustainability framework projects that the external debt-to-GDP ratio should surpass 40 percent from 2016, and gradually decline only from 2020.

**6. Shocks.** Alternative scenarios include a historical scenario in which main variables are assumed to be the same as in the past ten years, and others that incorporate a 0.25 standard deviation applied to real interest rate, growth rate, and the current account balance. While the historical scenario, in which financial needs are much lower than in the baseline, lead to a drastic reduction in external debt, other shocks to the baseline lead to a dramatic debt escalation. Most notably, shocks to the non-interest rate current account and the real exchange rate lead to an increase in external debt by 2021 up to 56 and 62 percent of GDP, respectively.

## Table 3. Gabon: External Debt Sustainability Framework, 2011-2021

(In percent of GDP, unless otherwise indicated)

| | Actual | | | | | | | Projections | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2011 | 2012 | 2013 | 2014 | 2015 | | | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | Debt-stabilizing non-interest current account 6/ |
| **Baseline: External debt** | 13.6 | 16.6 | 24.2 | 25.3 | 34.5 | | | **41.4** | **41.2** | **42.1** | **42.3** | **41.5** | **40.4** | **-5.7** |
| Change in external debt | -2.3 | 3.0 | 7.6 | 1.1 | 9.2 | | | 6.8 | -0.2 | 0.9 | 0.1 | -0.7 | -1.2 | |
| Identified external debt-creating flows (4+8+9) | -22.7 | -18.2 | -16.7 | -14.6 | 4.3 | | | 2.8 | 0.7 | -0.8 | -1.7 | -2.6 | -3.4 | |
| Current account deficit, excluding interest payments | -16.1 | -17.0 | -13.4 | -9.3 | 0.7 | | | 7.3 | 5.4 | 3.7 | 2.6 | 1.8 | 1.0 | |
| Deficit in balance of goods and services | -30.8 | -27.9 | -23.3 | -15.2 | -5.0 | | | 1.6 | -0.3 | -2.0 | -2.9 | -3.5 | -4.1 | |
| Exports | 61.2 | 64.4 | 60.3 | 53.7 | 43.0 | | | 30.5 | 30.9 | 31.2 | 31.3 | 31.2 | 30.9 | |
| Imports | 30.5 | 36.5 | 37.1 | 38.5 | 38.0 | | | 32.1 | 30.6 | 29.2 | 28.4 | 27.7 | 26.9 | |
| Net non-debt creating capital inflows (negative) | -4.0 | -3.6 | -4.4 | -5.6 | -4.3 | | | -5.1 | -5.0 | -4.8 | -4.5 | -4.6 | -4.7 | |
| Automatic debt dynamics 1/ | -2.6 | 2.4 | 1.1 | 0.2 | 8.0 | | | 0.5 | 0.3 | 0.4 | 0.2 | 0.2 | 0.3 | |
| Contribution from nominal interest rate | 0.8 | 0.9 | 1.5 | 1.0 | 1.2 | | | 1.7 | 2.0 | 2.1 | 2.1 | 2.2 | 2.2 | |
| Contribution from real GDP growth | -0.9 | 0.0 | -0.9 | -1.0 | -1.3 | | | -1.2 | -1.7 | -1.8 | -1.9 | -1.9 | -1.9 | |
| Contribution from price and exchange rate changes 2/ | -2.5 | 1.6 | 0.5 | 0.2 | 8.1 | | | ... | ... | ... | ... | ... | ... | |
| Residual, incl. change in gross foreign assets (2-3) 3/ | 20.4 | 21.2 | 24.3 | 15.8 | 4.9 | | | 4.1 | -0.9 | 1.7 | 1.8 | 1.9 | 2.2 | |
| External debt-to-exports ratio (in percent) | 22.2 | 25.8 | 40.1 | 47.2 | 80.4 | | | 135.9 | 133.5 | 135.0 | 135.1 | 133.0 | 130.5 | |
| **Gross external financing need (in billions of US dollars) 4/** | -2.5 | -2.4 | -1.1 | -1.1 | 0.7 | | | 1.5 | 1.6 | 1.2 | 1.1 | 1.2 | 1.2 | |
| in percent of GDP | -13.8 | -13.9 | -6.4 | -6.2 | 4.6 | 10-Year | 10-Year | 11.2 | 10.6 | 7.3 | 6.5 | 6.4 | 5.9 | |
| **Scenario with key variables at their historical averages 5/** | | | | | | | | **41.4** | **25.0** | **10.9** | **-3.0** | **-17.0** | **-30.6** | **-4.6** |
| | | | | | | Historical | Standard | | | | | | | |
| **Key Macroeconomic Assumptions Underlying Baseline** | | | | | | Average | Deviation | | | | | | | |
| Real GDP growth (in percent) | 7.1 | 0.0 | 5.6 | 4.3 | 4.0 | 3.6 | 3.4 | 3.2 | 4.5 | 4.7 | 4.9 | 5.0 | 4.9 | |
| GDP deflator in US dollars (change in percent) | 18.4 | -10.3 | -3.0 | -0.8 | -24.3 | 1.8 | 16.2 | -8.8 | 5.4 | 3.9 | 3.9 | 3.5 | 3.3 | |
| Nominal external interest rate (in percent) | 6.1 | 5.7 | 9.2 | 4.5 | 3.7 | 5.8 | 1.6 | 4.7 | 5.2 | 5.7 | 5.5 | 5.6 | 5.6 | |
| Growth of exports (US dollar terms, in percent) | 31.2 | -0.7 | -4.1 | -7.9 | -37.0 | 4.5 | 27.3 | -33.3 | 11.6 | 10.0 | 9.2 | 8.5 | 7.3 | |
| Growth of imports (US dollar terms, in percent) | 30.9 | 13.2 | 4.0 | 7.6 | -22.4 | 9.3 | 15.0 | -20.6 | 5.1 | 3.8 | 6.1 | 6.1 | 4.9 | |
| Current account balance, excluding interest payments | 16.1 | 17.0 | 13.4 | 9.3 | -0.7 | 13.1 | 6.7 | -7.3 | -5.4 | -3.7 | -2.6 | -1.8 | -1.0 | |
| Net non-debt creating capital inflows | 4.0 | 3.6 | 4.4 | 5.6 | 4.3 | 4.6 | 1.0 | 5.1 | 5.0 | 4.8 | 4.5 | 4.6 | 4.7 | |

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

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

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

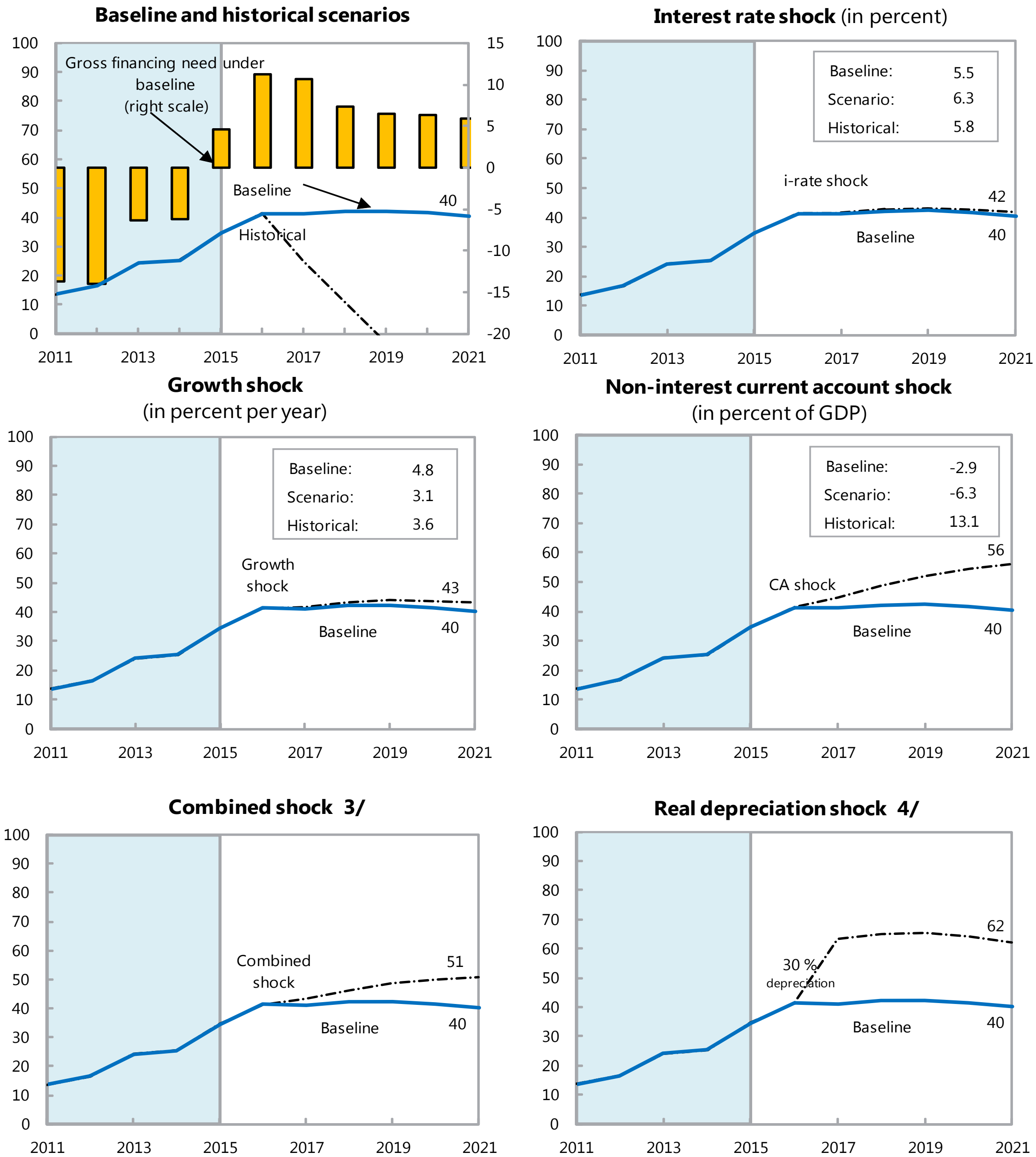
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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

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

## Figure 3. Gabon: External Debt Sustainability: Bound Tests 1/ 2/

(External debt in percent of GDP)




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

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

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

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

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

**Statement by Mr. Yambaye, Executive Director For Gabon**
**February 19, 2016**

On behalf of my Gabonese authorities, I would like to express my appreciation to management and staff for their continued support and technical assistance provided to Gabon. My authorities appreciate the candid and constructive discussions with staff during the Article IV discussions in Libreville in November 2015. They welcome staff recommendations and inputs in their economic policy agenda.

**Economic activity and the country's finances were severely affected in 2015 by the sharp decline in oil prices, despite significant fiscal adjustment that started in the second half of 2014.** My authorities have continued to adapt their policy program to changing economic conditions. As I mentioned in my Buff statement on Gabon last year, my Gabonese authorities decided to slow down pace of implementation of their national development plan, *Plan Stratégique Gabon Emergent* (PSGE), in order to align related expenditures with the absorptive capacity of the country and the level of budgetary resources, and preserve fiscal sustainability. The 2014 budget was revised accordingly in July 2014 with notably a halving of the public investment spending, before the oil prices even begun their inexorable decline. As international oil prices declined sharply toward end-2014, the draft 2015 budget was reviewed with more conservative revenue assumptions at the time. Later, the 2015 budget was revised again, as oil prices declined further and remain much lower than projected throughout 2015, which further complicated the implementation of the PSGE.

**With oil prices continuing to fall in early 2016, the authorities are taking additional measures to tighten the budget.** As in the past, given the regional fixed exchange rate regime in place, my authorities intend to respond to the projected tighter resource constraint by further scaling down expenditures related to the implementation of the PSGE, while speeding up structural reforms to foster economic diversification and increase the resilience of the economy to exogenous shocks.

## I. Recent economic developments

**The persistent low oil prices affected negatively the macroeconomic performance in 2015**. Growth is estimated at 4.0 percent in 2015, down from 4.3 percent in 2014. This slowdown came mainly from the non oil sector which was hit by the lower public demand that resulted from declining oil revenues (4.0 percent in 2015 against 5.0 percent in 2014). Oil production, however, increased from 1.8 percent in 2014 to 4.2 percent in 2015 thanks to the drilling of new wells and the application of new enhanced oil recovery techniques. Inflation has remained flat with sluggish domestic demand; the current account balance turned negative in 2015 due to lower oil export value and international reserves have declined.

**Budget execution in 2015 has been prudent**. Public investment spending was slowed down as both oil and non-oil revenue collection continued to underperform projections. External arrears that emerged in 2014 were settled. Large domestic arrears were also paid thus limiting their impact on economic activity and the financial sector. However, arrears payments led to a sharp deterioration of the overall fiscal balance. Public debt remains moderate at 43 percent of GDP, although it has increased in the past few years following the issuances of the two Eurobonds (US$1.5 billion and US$ 500 million) whose proceeds are being used to finance the PSGE.

**Some progress has been made in the implementation of fiscal reforms.** My authorities pursued the implementation of the *Budgétisation par objectifs de programme* (BOP) in accordance with CEMAC regional directives to strengthen public financial management. As part of the BOP, the authorities have aligned budget execution and public spending principles with CEMAC directives, significantly computerized the expenditure chain, started decentralizing budgetary execution, and adopted a single account at the BEAC, among other important measures. These actions are in line with the 2013 PEFA recommendations. More recently, petrol and diesel subsidies were eliminated and an automatic petroleum price-setting mechanism was introduced.

**The health of the financial sector is good and troubled banks are being resolved**. Banks are well capitalized. The repayments of government domestic arrears kept the NPLs at a low level. My authorities are addressing the three troubled banks in cooperation with COBAC, the regional banking supervision agency. In particular, three banks, which represent 9 percent of total banking system assets, have been placed under provisional administration. The temporary administrators are tasked with delivering resolution plans to improve governance, business strategy and risk management in the banks. Asset quality in the microfinance sector is also deteriorating with the slowdown in the non-oil economy. Financial inclusion has improved in terms of physical outreach.

**Structural reforms to foster economic diversification in the context of the PSGE are also advancing well**. The implementation of projects launched since 2010 to upgrade infrastructure in the transport and energy sectors and to develop agri-business is proceeding well. Furthermore, as indicated earlier, in order to forcefully address unemployment and poverty, my authorities launched in 2014 several initiatives that aim, among others, at promoting income-generating activities, developing human capital and improving the social conditions of the most vulnerable segments of the population. In particular, an agricultural program, *Programme GRAINE,* developed in partnership with a Singapore-based multinational corporation, was launched to promote the development of agriculture through the provision of a multiform assistance to producers organized in cooperatives. The implementation of this program is accelerating. Through this program, my authorities expect to increase individual empowerment and tackle rural exodus while improving land use planning and contributing to economic diversification.

**Significant progress was made towards addressing data weaknesses**. The timeliness of the fiscal, monetary and price data provided to the IMF has improved. The 2013 Demographic census has been finalized. Work is underway with the assistance of the World Bank for the production of quarterly national accounts data. A national system of statistics has been established and a national agency for statistics has been created

## II. Policies for 2016 and beyond

**Gabon is undeniably facing a challenging economic environment**. The country's medium term growth outlook has deteriorated, with dimmer prospects of an oil price recovery in the near term. GDP growth will decline further in 2016, driven by a continued slowdown of the non-oil sector as a result of a constrained public demand. Inflation is expected to remain well below the related regional convergence criterion.

**To address the downside risks, my authorities concur that a reprioritization of the investment program is needed**. As noted above, they will streamline the PSGE notably by focusing on projects with greater long term socio-economic returns and on improving the business environment. These include, as staff note, the road corridors that connect growth poles identified in the PSGE, the agro-industrial projects and the rehabilitation of the railway line which is key to the transportation of the production of the mining and wood industries to the port. These projects will remove obstacles to private sector development while boosting non-oil growth in 2017 and beyond.

The **fiscal program** for 2016 and the medium term envisages the adoption of several revenue-enhancing and expenditure-reducing measures to reduce fiscal vulnerabilities stemming from oil price developments, improve medium-term fiscal sustainability and put debt dynamics on a sustainable path. In particular, the 2016–18 MTFF assumes a freeze in current spending and a reduction in capital spending of 8 percent between 2015 and 2018.

Moreover, my authorities are now seeking to contain the growth of the **wage bill.** They have taken several measures, in that regard, including incentives for early retirement, recruitment freezes, and the elimination of an inefficient incentive system. With the assistance of the World Bank, they will continue the development of the civil service reform that will overhaul the existing framework from recruitment to administration to compensation.

**As regard fiscal reforms, my authorities agree with staff, notably, on the need to enhance tax administration and reduce tax exemption.** They will pursue the BOP reforms, taking into account the recent recommendations of IMF technical assistance. Tax exemptions will also be reviewed with the assistance of the World Bank. However, all tax exemptions cannot be eliminated for contractual and legal reasons. Nevertheless, a first step would be to eliminate tax exemptions with no legal basis and not to grant new ones. Existing tax exemptions will not be renewed at expiration.

As regards the **tax on non-bank wire transfers,** my authorities remain of the view that it does not affect cash transfers and is consistent with proposals in the international arena to tax capital flows. Furthermore, the removal of this tax still remains a politically sensitive issue as the proceeds of this tax go to the health insurance fund.

Given the increased vulnerability of the **financial sector** to macroeconomic shocks according to the stress tests performed in the 2015 FSAP for CEMAC, my authorities are committed to strengthen the sector's stability and pursue greater financial inclusion and deepening. They are determined to carry out the resolution of the troubled banks. They will particularly focus their efforts on a successful restructuring of the Post Bank because of its extensive rural branch network which has contributed to improve financial inclusion. My authorities recognize that further progress is needed to deepen the financial sector. In this regard they intend to further reduce barriers to financial services and financial deepening, in particular through setting-up of a credit registry and adopting new technology innovations in the banking sector. They will continue to monitor closely the microfinance sector to preserve its soundness.

In conclusion, in spite of the major shock to the economy brought about by the significant fall in oil prices, Gabon is pursuing its fiscal consolidation efforts in a determined way so as to preserve fiscal sustainability, while also ensuring that the measures implemented do not have too much of a negative impact on economic growth. In this regard, they will continue to implement steadfastly measures that will reduce the fiscal deficit, and focus the investment program on projects with positive long-term spillovers.