INTERNATIONAL MONETARY FUND

IMF Country Report No. 18/269

GABON

September 2018

SECOND REVIEW OF THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, REQUESTS FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA AND WAIVERS OF APPLICABILITY, AND FINANCING ASSURANCES REVIEW—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR GABON

In the context of the second review of the extended arrangement under the Extended Fund Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on August 1, 2018 following discussions that ended on June 25, 2018 with the officials of Gabon on economic developments and policies underpinning the IMF arrangement under the Extended Fund Facility. Based on information available at the time of these discussions, the staff report was completed on July 25, 2018.
- A **Statement by the Executive Director** for Gabon.

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

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

*Also included in Staff Report

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

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org
Price: $18.00 per printed copy

International Monetary Fund
Washington, D.C.

Press Release No. 18/326
FOR IMMEDIATE RELEASE
August 1, 2018

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Second Review of the Extended Arrangement Under the Extended Fund Facility with Gabon and Approves US$ 100.2 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the second review of Gabon's economic program supported by an extended arrangement under Extended Fund Facility (EFF). Completion of the review enables the immediate disbursement of SDR 71.43 million (about US$ 100.2 million). This brings total disbursements under the arrangement so far to SDR 214.29 million (about US$ 300.7 million).

In completing the second review, the Executive Board approved the authorities' request for waivers of non-observance and applicability of performance criteria.

Gabon's three-year, SDR 464.4 million extended arrangement (about US$ 642 million at the time of approval, the equivalent of 215 percent of Gabon's quota) was approved by the Executive Board on June 19, 2017 (see Press Release No. 17/233). The government's reform program, supported by the IMF, aims to ensure macroeconomic stability and lay the basis for sustainable growth. It also seeks to attain debt sustainability at the national level and help contribute to restoring and preserving external stability for the Central African Economic and Monetary Union (CEMAC).

Following the Executive Board discussion on Gabon, David Lipton, First Deputy Managing Director and Acting Chair stated:

"Macroeconomic conditions are slowly improving in Gabon, but the recovery remains fragile. Estimates indicate that overall economic growth weakened due to declining oil production and the stronger-than-expected impact of fiscal consolidation on sectors linked to government expenditure. These weaknesses were moderated by a robust growth of the mineral extraction, agriculture, and timber sectors. In 2018, higher oil prices, new investment in the oil sector and export processing zones, and increasing manganese production will help support a modest recovery of economic growth to about 2 percent.

"Gabon's performance under the EFF arrangement has been mixed, with fiscal slippages in late 2017 and early 2018 complicating cash management, undermining efforts to manage and clear external arrears. The authorities have reiterated their commitment to the program and have implemented a supplementary budget for 2018 aiming to bring the fiscal consolidation back on track. The new budget is supported by strong measures to contain the wage bill and other non-priority spending. The planned elimination of a large number of semi-autonomous government agencies and the strengthening of controls on the remaining agencies should improve the transparency and efficiency of public spending. Steps have also been taken to boost non-oil revenue collections, including by eliminating costly customs duty exemptions except for only a few items. To better manage fiscal risks should non-oil revenue collections underperform, the supplementary budget introduces an automatic adjustment mechanism for public spending.

"The authorities have renewed their commitment to the arrears clearance strategy. As a corrective action for completion of the second review, the authorities cleared all arrears owed to bilateral and multilateral creditors, as well as arrears owed to commercial creditors whose claims are guaranteed by a sovereign. The authorities intend to clear all remaining commercial non-guaranteed arrears by the end of the year. To avoid new arrears, the authorities committed to strengthening cash flow management, including through regular updates of their monthly fiscal cash flow plans. The authorities plan to clear domestic arrears per the agreed calendar under the Club de Libreville.

"Gabon's near-term economic prospects will depend on continued financial sector stability. Decisive steps should be taken to accelerate the resolution of the three public banks in distress, and to develop the framework for the resolution of non-performing loans. Clear and regular communication of the domestic arrears clearance strategy would also be important to rebuild economic confidence.

"Social spending needs to be protected and expanded to maintain broad support for the economic recovery strategy. Strict implementation of the authorities' announced measures is essential, including to establish a minimum floor of social assistance spending for vulnerable groups and stepped up public outreach efforts to better communicate social spending objectives.

"Gabon's program is supported by the implementation of supportive policies and reforms by the regional institutions in the areas of foreign exchange regulations and monetary policy framework and to support an increase in regional net foreign assets, which are critical to the program's success."

INTERNATIONAL MONETARY FUND

GABON

July 25, 2018

SECOND REVIEW OF THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, REQUESTS FOR WAIVERS OF NONOBSERVANCE OF PERFORMANCE CRITERIA AND WAIVERS OF APPLICABILITY, AND FINANCING ASSURANCES REVIEW

EXECUTIVE SUMMARY

Context. While external buffers are being rebuilt, the CEMAC's recovery remains fragile. In Gabon, macroeconomic conditions are slowly improving. Activity is stabilizing, with 2017 growth revised to 0.5 percent—a slowdown broadly in line with trends envisaged at the time of the program request a year ago. Oil and mining exports helped narrow the 2017 current account deficit. The overall fiscal deficit (cash basis) declined by 3¼ percent of GDP, but the adjustment relied on large cuts in public investment. Weak program implementation contributed to the underperformance of non-oil revenues and overruns on current spending. Fiscal slippages aggravated already significant cashflow pressures, contributing to the authorities' failure to clear all external arrears at end 2017. The authorities recently announced a strong package of fiscal consolidation measures.

Economic outlook. The short-term outlook remains challenging. While a growth rebound in 2018 is expected given good prospects for FDI and higher oil prices, low non-oil revenue collections and tight short-term liquidity conditions at the Treasury will require decisive implementation of the recently announced fiscal consolidation plan. Timely clearance of domestic arrears is needed to strengthen banks' balance sheets and increase credit to the private sector to support growth, while clearance of external arrears is crucial to maintain Gabon's creditworthiness and access to external financing.

Program status and policies. Two end-December 2017 quantitative performance criteria were missed, including the continuous performance criterion on external arrears accumulation. All three indicative targets were also missed. The other quantitative performance criteria were met. Progress was initially slow on key structural benchmarks but many have now been met. With the delay in the Executive Board consideration of the review, the end-June 2018 performance criteria have become controlling. The authorities are requesting a waiver of nonobservance for the continuous performance criterion on external arrears accumulation and two end-June performance criteria (non-oil fiscal balance and net government claims on the central bank) which based on available information has not been observed, as well as a waiver of applicability for the

other end-June performance criteria for which data are not yet available (but for which there is no indication that they may have been missed). Addressing the tight liquidity situation and restoring the programmed path of fiscal adjustment requires additional fiscal effort. The 2018 supplementary budget, which was adopted by the Senate on June 29, targets an improvement in the non-oil primary balance of about 2½ percent of non-oil GDP. In addition to the supplementary budget, the authorities have implemented five other prior actions that show an increase in commitment to the success of the program. All these actions entail decisive reforms to boost non-oil revenue collections and increase the transparency and efficiency of public spending. The program is supported by union-level efforts to maintain an appropriate monetary policy stance, build up regional reserves and promote financial stability.

Staff views. While program performance since December 2017 had been weak, the authorities have taken decisive corrective action with the approval of a supplementary budget that will place public finances on a sustainable path. In addition, several delayed structural reforms have now been implemented. Given the strength of the corrective actions, staff supports the completion of the second review and the authorities' request for waivers of nonobservance and waivers of applicability of the relevant end-June 2018 performance criteria. Completion of this review would make available a purchase equivalent to SDR 71.43 million.

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

The discussions on the Second Review under the Extended Arrangement took place in Libreville during June 13-25, 2018. The IMF staff team included Alex Segura-Ubiergo (head), Koffie Nassar and Toomas Orav (all AFR), Gwenaelle Suc (FAD), Franck Dupont (MCM), Manasa Patnam (SPR) and Marcos Poplawski Ribeiro (Resident Representative). Mr. Thierry Nguema Affane (OED) participated in the discussions. The mission met with the Director of Cabinet of the Presidency, Mr. Brice Laccruche, Economy Minister Jean-Marie Ogandaga, Budget Minister Jean-Fidèle Otandault, the National Director of BEAC Denis Meporewa, and other senior government officials, representatives of the private sector, and civil society.

CONTENTS

ANNEXES

APPENDIX

Glossary

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

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

CONTEXT

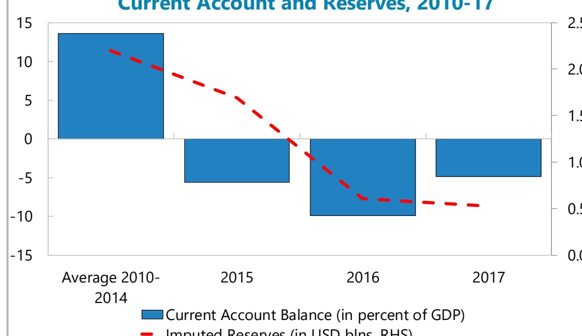
1. Political risks have increased, but still seem manageable. The Constitutional Court ordered the dissolution of Parliament after the government failed to organize legislative elections by end-April. The government resigned but the President immediately reappointed the same Prime Minister and named a new Minister of Economy. The new government established an economic task force charged with the preparation of a supplementary 2018 budget that includes new measures in support of fiscal consolidation efforts. After weak program implementation in the first half of 2018, the recent adoption of the revised budget reinforces the government's commitment to the Fund-supported program. Nonetheless, social tensions could return with the announcement of difficult adjustment measures. This highlights the need for continued outreach efforts and dialogue across the political spectrum and civil society. The success of the Gabon program is also key to support the regional economic strategy of the CEMAC region.[1]

RECENT DEVELOPMENTS AND PROGRAM PERFORMANCE

2. Macroeconomic conditions are slowly improving. Economic activity appears to be stabilizing, with 2017 real growth estimated at about 0.5 percent, broadly in line with the initial forecast. Oil production underperformed, partly due to work stoppages at some firms. Fiscal consolidation (especially the large drop in public investment) weighed heavily upon the commercial and service sectors, which fell into recession. These weaknesses were partly offset by stronger growth in mineral extraction (with new manganese operations and additional port capacity), as well as robust performance on the agri-industry and timber sectors.

3. Headline inflation remains contained. The 12-month average consumer price inflation was 2.7 percent in December—a decline of 0.7 percentage points since June. This was driven by lower domestic food prices and a slowdown in fuel price inflation (as the impact of the elimination of fuel subsidies in 2016 dropped from the index). Average inflation remained around 2.5 percent through end-April 2018, although higher fuel prices during early 2018 could add short-term inflationary pressures.

Text Figure 1. Gabon: External Trends, Current Account and Reserves, 2010-17



Sources: Gabonese authorities and IMF staff estimates.

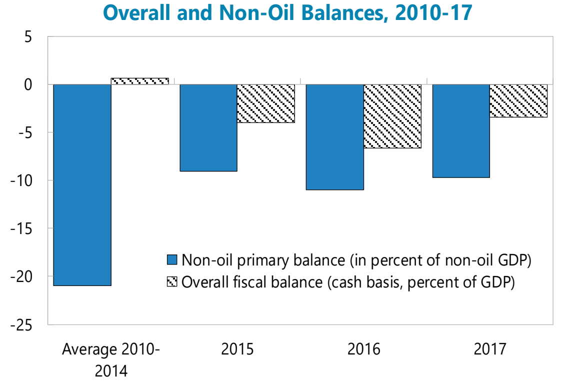
[1] An updated assessment on the policy assurances by the CEMAC regional institutions, which remains key for the success of Gabon's Fund-supported program, is discussed in detail in the regional background paper (SM/18/157; 6/15/18).

4. Oil exports and new mineral extraction capacity reduced the current account deficit (Text Figure 1). Higher oil and manganese prices (both increasing by about 30 percent, y/y) led to a substantial improvement in Gabon's terms of trade. The external current account deficit declined from 10 percent of GDP in 2016 to around 5 percent in 2017. Although, reserve accumulation fell short of the amount projected under the program, partly driven by stronger than expected short-term capital outflows, FDI inflows surprised on the upside towards the latter half of the year. Overall however, the narrowing of the current account deficit and sustained FDI inflows, helped stabilize Gabon's imputed international reserves at the BEAC, with the reserves decline moderating significantly from a loss of 9 percent of GDP in 2016 to less than 1 percent of GDP in 2017 (Text Figure 1). The decline in imputed reserves continued through March 2018, but preliminary data suggest this trend reversed in April and May.

5. Fiscal consolidation in 2017 was substantial, but the composition of the adjustment was problematic.

- The overall fiscal deficit (cash basis) declined by 3¼ percent of GDP, broadly in line with program projections (Text Figure 2). This helped contain public debt to around 63 percent of GDP—a reduction of about 1 percentage point of GDP compared with the previous year (Text Figure 3).

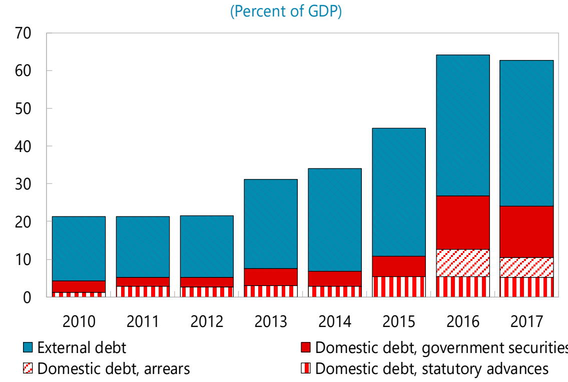
Text Figure 2. Gabon: Fiscal Trends, Overall and Non-Oil Balances, 2010-17



Sources: Gabonese authorities and IMF staff calculations.

Text Figure 3. Gabon: Public Debt, 2010-17

(Percent of GDP)



Sources: Gabonese authorities and IMF staff estimates.

- However, the adjustment relied on a large decline in public investment, which dropped to 1½ percent of GDP—a reduction of over ⅔ compared to 2016—largely due to a shortfall in external project financing associated with the failure to clear external arrears.
- At the same time, total revenues declined by 0.7 percent of GDP, with a large drop of over 2 percent of GDP in non-oil revenues. The revenue underperformance stemmed from the slowdown in economic activity, as well as lags in the implementation of announced reforms, excessive use of tax exemptions, and disruptive strikes by tax officials, especially at customs.
- Current spending declined, though less than expected for transfers and subsidies. Moreover, both net lending and the net spending of special accounts (which capture spending by semi-autonomous government entities) grew substantially relative to 2016. This suggests

weak spending controls beyond the central government, and insufficient coordination across government entities.[2]

6. While the overall fiscal deficit improved, this masks substantial fiscal slippages that are best captured through other fiscal indicators.

- The non-oil primary deficit improved from 11 to 9.7 percent of non-oil GDP between 2016 and 2017—a shortfall of ½ percent of non-oil GDP relative to the target under the program.
- The non-oil primary basic balance, which is a direct measure of domestically-driven fiscal effort, deteriorated. While program objectives forecast a reduction of the deficit from about 7 to 6 percent, the actual deficit worsened to about 8½ of non-oil GDP.[3]

7. The deviations in fiscal execution from the original plans generated substantial cashflow pressures. Given the lower domestically-driven fiscal effort, the authorities did not honor their commitment to clear all external arrears by end-2017 and accumulated new arrears during the first half of 2018.

- The total stock of external arrears at the end of 2017 stood at CFAF 123.7 billion, 1.2 percent of GDP (Text Table 1), largely comprising arrears to commercial creditors, split equally between guaranteed and non-guaranteed claims. About ¾ of the stock of arrears from the previous years has been cleared, but there was also accumulation of new arrears in 2017 of CFAF 77.5 billion—most of these arrears were accumulated before the program was approved in June 2017. During the first quarter of 2018, the authorities paid some legacy arrears and negotiated a debt reprofiling arrangement with two commercial creditors, which contributed to a reduction of the current stock of arrears, but new arrears were also accumulated.

[2] In the case of special accounts, there are PFM weaknesses to address as some of these semi-autonomous government agencies are not connected to the expenditure-tracking software and can enter into commitments with the private sector without strict enforcement of expenditure ceilings. Net lending was higher because the Sovereign Wealth Fund used part of its available liquidity at the central bank to acquire shares in private sector companies and to set up an investment fund for small and medium enterprises.

[3] The program targets the non-oil primary balance with a program adjustor for lower externally-financed capital expenditures that tracks relatively closely the non-oil primary basic balance (which excludes all externally-financed investment from the indicator). The deviation in the non-oil primary basic balance vis-à-vis program objectives was 1.7 percent of non-oil GDP once the adjustor for lower externally-financed investment is applied.

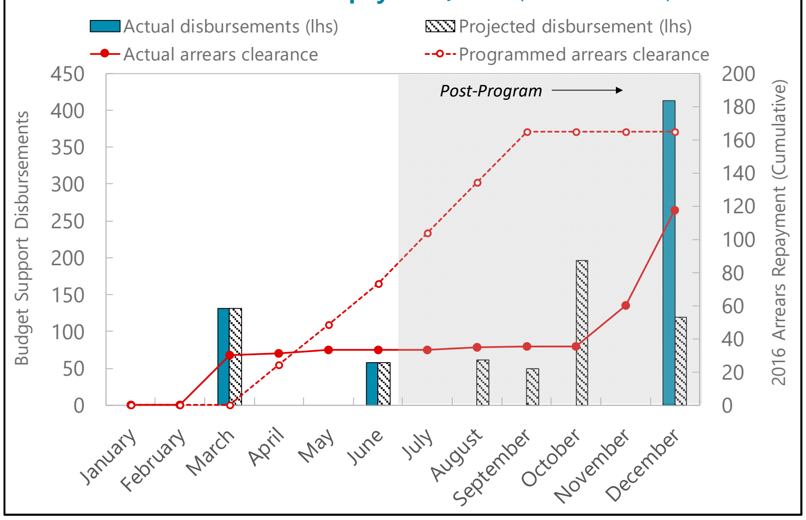
Text Table 1. Gabon: External Arrears Evolution, 2016–18
(Billions of CFAF)

	2016		2017				2018[5/]
	Stock of Arrears (1)	2016 Arrears remaining[1/] (2)	Arrears incurred on 2017 debt (3)	Post-Program Arrears on 2017 debt[2/] (3a.)	Post-Program Arrears on non-legacy 2017 debt[3/] (3b.)	Stock of Arrears (4=2+3)	Stock of Arrears
Bilateral	23.0	0.0	0.1	0.1	0.1	0.1	0.0
Commercial	131.7	44.6	75.8	30.2	1.6	120.4	79.2
Commercial Guaranteed[4/]	93.4	14.6	50.7	26.0	0.0	65.2	55.4
Commercial Non-Guaranteed	38.4	30.0	25.1	4.2	1.6	55.2	37.8
Financial Markets	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Multilateral	9.9	1.6	1.6	0.0	0.0	3.3	4.2
Total	164.6	46.2	77.5	30.3	1.7	123.7	83.4
Memo Items:							
Arrears as share of current debt service (percent)	*43.8*		*17.3*	*6.8*	*0.4*		

Sources: Gabonese authorities and Fund staff estimates
1/ This reflects arrears remaining from the estimated 2016 stock of arrears, as a result of payments made in 2017.
2/ Refers to arrears incurred on debt service during July-December 2017.
3/ Refers to arrears incurred on debt service during July-December 2017, excluding arrears incurred on debt service which had a legacy stock of arrears.
4/ Commercial guaranteed claims comprise credit guaranteed by the government in the creditor country or by an agency, such as an export credit agency, acting on behalf of the government.
5/ Information as of mid-July 2018.

8. **To meet the program commitments on external arrears, the authorities faced several debt servicing and arrears repayment issues.** The failure to meet the commitment under the Fund-supported program to clear all external arrears stemmed from (i) liquidity conditions generated by fiscal slippages; (ii) delayed budget support disbursements with most expected disbursements arriving only in December (Text Figure 4); and (iii) technical debt servicing difficulties related to the accumulated legacy arrears.[4] The rate of arrears accumulation, however, declined significantly in 2017, with 17 percent of expected 2017 debt service falling into arrears, compared with 44 percent of debt service falling into arrears during 2016.

Text Figure 4. Gabon: Budget Support Disbursements and Cumulative Arrears Repayment, 2017 (Billions of CFAF)



[4] The structure of many commercial debt contracts made it difficult for the authorities to service current debt service without first clearing the stock of legacy arrears with each creditor. In some cases, when current debt-service payments are made, creditors affect it to reduce the stock accumulated before rendering the current debt service in arrears.

Text Table 2. Gabon: Domestic Debt, End-December–End-May 2018
(Percent of GDP)

	2016	2017			2018		
		Flows		Stock	Flow		Stock
		Payments	Accumulation		Payments	Accumulation	
Total domestic debt	**26.8**	**9.6**	**7.9**	**24.0**	**10.9**	**7.4**	**18.5**
Domestic debt outstanding	**19.6**	**7.2**	**7.2**	**18.8**	**9.1**	**7.4**	**16.3**
Regional securities markets 1/	3.5	0.7	1.6	4.3	0.9	0.0	3.0
Treasury bills 2/	2.3	4.3	4.3	2.3	6.5	5.9	1.5
Banking system 3/	4.3	0.5	0.7	4.3	0.8	1.3	4.5
Statutory advances from the central bank	5.4	0.0	0.0	5.2	0.0	0.0	4.8
Moratorium debt 4/ 7/	3.8	1.6	0.5	2.5	0.8	0.2	2.4
Other domestic debt 5/	0.2	0.1	0.1	0.2	0.1	0.0	0.1
Total domestic arrears	**7.2**	**2.4**	**0.7**	**5.2**	**1.8**	**0.0**	**2.9**
Exceptional budgetary float 6/	3.0	1.6	0.1	1.4	0.9	0.0	0.4
VAT arrears	4.2	0.8	0.5	3.8	0.9	0.0	2.6
Memo Item							
Club de Libreville				**3.5**	**0.4**	**0.0**	**2.6**
Moratorium debt				2.9			
GC Contractor				0.3			
Exceptional budgetary float				0.4			

Sources: Gabonese authorities; and IMF staff estimates.
1/ Medium-term bonds with maturities of at least 3 years issued on the regional securities markets.
2/ Short-term Treasury bills of up to 1 year maturity issued and managed directly by the Treasury.
3/ Debt held, including over the counter operations, by commercial banks.
4/ In 2016, these represented securitization of end-2014 extra-budgetary transactions that were audited and validated.
5/ Other unclassified domestic debt.
6/ In 2016, these are stock of budgetary exceptional float.
7/ For 2017, includes debt to GC Contractor (21.8 billion CFA Francs).

9. **The stock of government domestic debt (including arrears) was reduced in 2017.** Total domestic debt declined from 26.8 to 24.0 percent of GDP (Text Table 2). This was largely due to a repayment of about 2.4 percent of GDP of domestic arrears (mostly on the exceptional budgetary float), as well as of moratorium debt.[5] This decline was about 1½ percent of GDP less than the program target, given lower settlement of VAT arrears and an upward adjustment in the stock of moratorium debt. For the remaining stock of about 5 percent of GDP of domestic arrears at end-2017, the government decided in April 2018 to operationalize a new payment plan known as the "Club de Libreville" arrangement.[6]

10. **Financial sector vulnerabilities increased in 2017.** Loans in arrears increased substantially from 9.7 percent of total loans at end-2016 to 14 percent at end-2017 (Text Figure 5).[7] Bank deposits fell by about 9 percent, and provisioning of non-performing loans declined by about 13½ percent. (Table 6). After some signs of improvement at end-2017, conditions worsened in Q1 2018, with credit provision contracting nearly 11 percent in March 2018 (y/y), in part reflecting the

[5] Moratorium debt represents the securitization of the end-2015 stock of extra-budgetary spending that was audited and validated by a special committee.

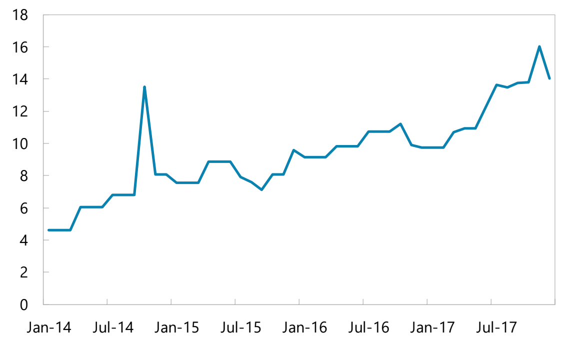
[6] Part of the authorities' strategy to clear domestic arrears has been operationalized through the Club of Libreville arrangement, which includes representatives from the government, banks and the private sector. This initiative focuses especially on small and medium enterprises but does not include VAT arrears. The plan covers mostly moratorium debt, and a small part of the remaining budgetary float, committing the government to a repayment plan of 74 months with monthly installments of CFAF 5 billion.

[7] Loans in arrears include all loans for which payments are overdue. Loans in arrears for over 90 days are generally considered Non-Performing Loans, which constitute about three-quarters of loans in arrears in the Gabonese banks.

impact of domestic arrears (Text Figure 6). However, capital adequacy ratios complied with prudential norms mainly due to a decline in the risk-weighted assets of banks. The government program for domestic arrears has not been published, though a dialogue with the private sector is ongoing. Incomplete information has been circulated by the authorities concerning the structural benchmark on the assessment of options for the resolution/restructuring of the three distressed public banks.

Text Figure 5. Gabon: Loans in Arrears

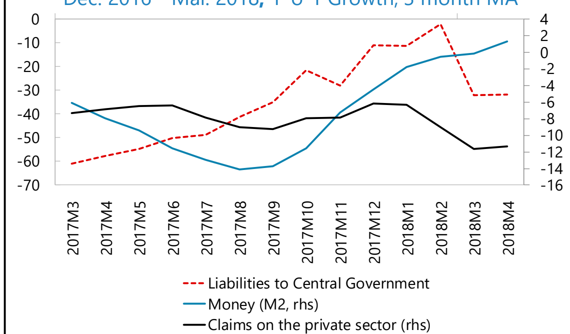
(January 2014 - December 2017, percent of total loans)



Source: COBAC

Text Figure 6. Gabon: Monetary Aggregates

Dec. 2016 - Mar. 2018, Y-o-Y Growth, 3 month MA



Source: Gabonese authorities

11. Program performance at end-2017 and through end-June has been weak (Table 9, Text Figure 7). While three end-2017 performance criteria (PCs) were met at end-December 2017, including those concerning domestic and external financing, the target for the non-oil primary balance and the continuous PC on external arrears were missed. With the postponement of the Executive Board consideration of the review, the end-June 2018 performance criteria have become controlling. Based on available information, staff project that the floor on the non-oil primary fiscal balance and the ceiling on net government claims on the central bank will not be observed due to the tight liquidity situation in the first half of the year from lower revenue collections. Data are not yet available for the other end-June 2018 performance criteria, and there is no indication that they may have been missed. The three indicative targets on non-oil revenues, social spending, and domestic arrears were also missed at end-December 2017 by relatively large margins. Progress has also been weak on the structural benchmarks (SBs) through end-March 2018 (Table 11). Structural measures to avoid accumulation of new arrears were not implemented on schedule, including adaptation of the expenditure control system to cover local administrations. Initial steps

Text Figure 7. Gabon: Program Performance

	Dec. 2017	Jun. 2018[1]
Quantitative Performance Criteria		
Primary non-oil fiscal balance	Not Met	Not Met
Net government claims on the banking system	Met	
Net government claims on the central bank	Met	Not Met
External debt ceiling	Met	
Continuous Performance Criterion		
New external payment arrears	Not Met	Not Met
Indicative Targets		
Stock of domestic arrears	Not Met	
Non-oil tax revenue	Not Met	
Social protection spending	Not Met	

Met Not Met

1/ June 2018 outturn are projected with the exception of the continuous PC on new external arrears accumulation.

have been taken to produce quarterly fiscal reports and monitoring of arrears, and to launch the audit/validation of 2015 and 2016 extrabudgetary spending, but the end-March deadlines were missed. In addition, measures to improve cash management, prepare cost-benefit analysis for new large investment projects, and produce an annex to the 2018 budget law on tax exemptions were also delayed. While tax and customs IT systems were adapted to eliminate illegal exemptions, some steps are still pending to make the reforms fully operational.[8]

OUTLOOK AND RISKS

12. Economic growth appears set to recover in the near term, but with a more modest bounce back than previously expected. The baseline growth forecast for 2018 has been revised down to 2 percent—a reduction of ¾ of a percentage point. Two key factors contributed to the markdown.

- First, growth in oil production has been revised down to zero given the disappointing results for 2017 and continued technical disruptions in early 2018, which resulted in a drop in Q1 production of 10.7 percent (y/y). Nonetheless, new fields are expected to come into production by end Q3, moderating the recent losses. Higher international oil prices have also led several oil companies to revise upward their earlier investment plans, suggesting that oil production volumes are likely to stabilize in 2018.
- Second, despite signs of strong non-oil commodity growth in 2018 thanks to maturing agri-industry and forestry projects, other non-oil sectors continue to face headwinds. There is evidence of a two-speed economy: with traditional sectors (construction, commerce and other services) still weak, and other sectors (agribusiness, forestry, non-oil commodities) and the special economic zone (SEZ) displaying signs of rapid growth.

13. The medium-term outlook remains relatively favorable if adequate policies are implemented as planned.[9] The large FDI flows into new economic sectors have the potential to help Gabon shed its longstanding dependence on the oil sector and public spending. At the same time, given the size of the Gabonese oil industry, the recent rise in oil prices and new offshore fields can also bring new investment and help support economic activity in some parts of the service sector. The maturing agriculture and forestry projects are both labor intensive and concentrated in rural areas, which could generate positive spillovers beyond direct employment, including through improved access to transportation and energy networks, However, potential indirect employment creation will largely depend on reforms to tackle the weak business climate, where greater reform efforts are needed. Fiscal consolidation efforts, including less domestic and external borrowing in

[8] The list and selection criteria for importers eligible for a bonded bank guarantee, and the regularization of the VAT situation of importers had not been developed according to the initial plans.

[9] This scenario assumes continued investment in Gabon's oil sector to optimize existing production (consistent with overall output declines of 1.3 to 2 percent per annum over the medium term). The scenario does not include the possible on-streaming of recent offshore discoveries, such as those recently reported by oil companies, such as Repsol and Petronas.

2017 than initially anticipated suggest an improvement in the stock of public debt (including domestic arrears), which could fall below 55 percent of GDP by the end of the program period.

14. Risks to the outlook remain predominantly to the downside.

- **Short term risks are elevated.** Urgent measures are required to address tight liquidity conditions, avoid further arrears accumulation, and redress fiscal slippages. If no policy adjustments are made to contain current spending or address weak non-oil revenues, deficits are likely to be accommodated through the accumulation of new arrears and minimal domestic and external arrears clearance. Failure to execute a policy-driven fiscal consolidation, would result in a disorderly adjustment and the new accumulation of domestic arrears would compromise financial stability and weaken growth. Lower oil prices would also increase short-term liquidity constraints, and delay the authorities plans to repay domestic arrears, which could increase financial sector vulnerabilities.
- Other downside risks include the risk of social resistance to government efforts to rein in spending, the impact of a protracted fiscal adjustment on growth, and the lack of adequate controls on the net spending of special accounts. There is also a risk of reform overload given the ambitious structural reform agenda. The authorities' program is becoming increasingly complex as new measures often must be introduced in a reactive mode to correct past slippages. This risk can be mitigated if a well-sequenced reform path, supported by adequate capacity development efforts is followed, and if program monitoring is strengthened to take preventive action. On the upside, improved terms of trade, especially the recovery of international oil prices over the past 12 months, and recent new oil discoveries, could increase investment to higher levels than in the baseline.

ECONOMIC POLICIES FOR 2018

15. The weaknesses in fiscal performance at end 2017 continued through the early months of 2018. Data indicate that both oil and non-oil revenues declined compared to 2017, while public spending, including goods and services, net lending, and special accounts, exceeded program projections. This led to a deterioration in the overall fiscal deficit (relative to 2017Q1) and of the non-oil primary deficit, which was 1.8 percent of non-oil GDP worse than the program indicative target at end-March. A policy reset, as detailed by the 2018 Supplementary Budget of June 29th, is urgently required to preserve Gabon's significant role in the CEMAC strategy and safeguard its commitment to contribute to the increase of the regional reserves pool.

A. Fiscal Policy: Preserving Fiscal Sustainability

16. Fiscal policy will be guided by the need to ensure debt sustainability, rebuild fiscal buffers, and avoid the accumulation of arrears.

- *In 2018, the program envisages a reduction in the overall fiscal deficit (cash basis) of 3.1 percent of GDP*—a reduction similar to the one observed in 2017 and about 1 percent of

GDP higher than the fiscal effort planned at the time of the original program request about a year ago. This is appropriate given higher oil prices, and will help place public debt on a relatively fast downward path (Text Table 3). It will also reduce tight financing constraints that have contributed to the accumulation of both external and domestic arrears.

Text Table 3. Gabon: Composition of Fiscal Adjustment
(year-on-year change in percentage points of GDP)

	2017		2018	
	1st Rev.	Act.	1st Rev	Proj.
Total revenue	0.4	-0.7	1.4	2.2
Oil revenue	1.9	1.5	-1.0	1.1
Non-oil revenue	-1.5	-2.3	2.4	1.0
o/w: VAT	0.1	-0.6	0.8	0.2
o/w: Taxes on international trade	-0.2	-0.5	1.0	0.5
o/w: Other revenue	-0.9	-0.5	-0.4	-0.2
Total expenditure	-2.3	-3.1	0.0	-1.0
Wages and salaries	-0.4	-0.3	-0.4	-1.5
Goods and services	-1.0	-1.1	0.1	-0.1
Transfers	-0.7	-0.2	-0.5	-0.3
Interest payments	0.5	0.2	0.0	0.0
Domestic investment	-0.7	-1.2	0.6	1.4
Foreign-financed investment	-0.7	-2.1	2.0	0.4
Net lending	0.1	0.6	-0.9	-0.1
Road Fund	-0.1	0.0	-0.1	-0.2
Special accounts	0.7	1.1	-0.8	-0.6
Memo:				
Overall balance (on a cash basis, in percent of GDP)	-3.6	-3.4	-2.3	-0.3
Non-oil primary balance (in percent of non-oil GDP)	-9.2	-9.7	-6.1	-7.1

Sources: Gabonese authorities and IMF staff estimates.

- *The non-oil primary deficit, which is more directly under the control of the authorities, will decline by about 2½ percent of non-oil GDP*. This fiscal adjustment effort is not expected to have a larger negative impact on growth than previously anticipated, given that the additional fiscal effort is moderate, relies on revenue measures and adjustments to current spending (where fiscal multipliers are typically smaller)[10], and still provides for a substantial increase in public investment.

17. Decisive revenue and expenditure measures are necessary to restore a credible path for fiscal consolidation and to accelerate the clearance of arrears that is hampering economic activity (Text Table 4). Fiscal consolidation efforts are evenly balanced between specific non-oil revenue mobilization measures (1.5 percent of GDP), and expenditure rationalization measures (1.4 percent of GDP)—with particularly strong efforts to reduce the wage bill and spending on

[10] IMF analysis indicates smaller multipliers for consumption spending than those for investment spending for advanced economies, although the evidence for emerging and developing economies is still scarce. See Batini et al. “Fiscal Multipliers; Size, Determinants, and Use in Macroeconomic Projections,” IMF Technical Notes and Manuals 2014/04.

special accounts (reflecting operations by semi-autonomous government entities). The key elements of the fiscal package include:

Text Table 4. Gabon: 2018 Proposed Fiscal Measures and Estimated Yields and Savings

(Billions of CFA francs and percentage of GDP)

	Estimated Yield or Saving	
	CFAF billions	Percent of GDP
Total Revenue Measures	140.4	1.5
Clearance of expired suspensive customs procedures	16.0	0.2
Elimination of the "*programme de lutte contre la vie chere*"	21.0	0.2
Clearance of customs warehousing arrangements	6.0	0.1
Revision of taxation modalities of managanese and wood exports (actual cost)	5.9	0.1
Taxation of public entities PIT	30.0	0.3
Strenghtening of quality and frequency of CIT controls	10.0	0.1
Taxation of luxury vehicles	1.3	0.0
Taxation of fund transfers	3.0	0.0
Revised rates of property transfers taxes	4.0	0.0
Revised rates of excise taxes	16.4	0.2
Census of tax exemptions and elimination of unjustified exemptions (incl. removal of tax exemptions applied to public procurement)	20.5	0.2
Implementation of the withholding personal income tax (5 percent) to customs	2.1	0.0
Broadening the tax basis of the single combined tax for activities with a turnover of less CFAF 35,000 (CIT)	4.2	0.0
Total Expenditure Measures	132.7	1.4
Reduction of the wage bill (reduction of bonuses, immediate cuts in salaries, reduction of housing allowances, implementation of a voluntary retirement plan, audit of the payroll, elimination of ghostworkers)	75.4	0.8
Reduction of non-social transfers by strenghtening financial oversight on units and agencies beniffiting from these transfers	3.2	0.0
Reduction of special accounts' deficits by strenghtening expenditure controls through the implementation of adequate IT systems in agencies or administrative units managing these accounts, and	54.1	0.6

Sources: Gabonese authorities and IMF staff estimates

- *Non-Oil Revenue Measures*. These include (i) the elimination of the costly program of custom duty exemptions,[11] (ii) rationalization of tax expenditures for both custom duties and the VAT (including the elimination of ad hoc, illegal tax exemptions); (iii) rate increases for some excise taxes; (iv) introduction of new taxes (e.g. luxury vehicles and fund transfers); and (v) taxation of public entities (MEFP ¶13).
- *Expenditure Rationalization*. The bulk of the adjustment will fall on the wage bill and special accounts. Savings on the wage bill focus on reductions of bonuses, salary reductions (between 5-15 percent depending on the salary scale), employment reductions in the Presidency and government ministries, and ceilings on housing allowances. The authorities

[11] This program of tax exemptions was initially introduced in 2008. It is ineffective and has no clear legal basis, as it relies on ad hoc Ministerial Orders rather than a tax law. Based on recent FAD TA missions, its cost has been estimated at CFAF 52.7 billion in 2017 (0.6 percent of GDP). The complexity of the program (with a list of 199 products) also creates administrative costs, reduces the capacity of custom officers to focus on their core tasks, and has been associated with fraud, as traders can easily bypass the list of products due to weak enforcement controls. The authorities agreed to eliminate 85 percent of products, leaving only a few pro-poor items in the list.

will also launch an audit of the payroll and introduce controls over employee attendance to eliminate ghost workers, including physical presence tests to collect payroll payments. Staff highlighted the importance of protecting salaries in social sectors and ensuring that there is no deterioration in service delivery. Structural reforms will seek to tighten controls on special accounts spending, including the elimination of a large number semi-autonomous agencies managing these accounts and the reintegration of these activities into central government operations.[12] (MEFP ¶13) At the same time, an increase in public investment, which had collapsed to 1.5 percent of GDP in 2017, reprioritizes projects to focus on specific growth corridors, particularly in the areas of infrastructure (road construction).

18. The authorities have also introduced a stronger system to manage contingencies and fiscal risks.

- First, 1.5 percent of non-priority appropriations under the 2018 Budget Law equivalent to 0.3 percent of GDP will be immediately cancelled (prior action). This short-term measure will contribute to a reduction in expenditure pressures before the new spending ceilings associated with the 2018 Supplementary Budget are in place.
- Second, the supplementary budget includes large contingencies of up to 20 percent of the appropriations depending on the budget line, which will limit the capacity of sectoral ministries to fully execute their budgets in cases of unexpected revenue shortfalls.
- In addition, the budget includes an automatic adjustment mechanism whereby an underperformance of non-oil revenue collection of 5 percent or more in a given quarter (relative to the program baseline) would require an equivalent expenditure adjustment in the succeeding quarter. Staff highlighted the importance of avoiding automatic adjustment cuts in priority social spending programs and limit the impact on public investment.

19. Tight financing constraints will require rigor in the implementation of fiscal consolidation plans, effective cash flow and debt management, as well as stronger coordination between government institutions.

- First, the authorities need to ensure that there are no slippages in their expenditure rationalization plans to avoid the problems observed in 2017 when expenditure overruns in several spending lines weakened fiscal discipline and led to severe cash constraints. This is particularly important given that all the fiscal adjustment effort for 2018 will fall on the second semester. There is a risk that wage and employment measures take more time to achieve the large envisaged reduction, and spending on special accounts could end up higher than projected given coordination challenges to enforce controls. At the same time, the authorities have taken some encouraging steps, requiring physical presence tests to retrieve salary payments (and hence control ghost workers) and announcing the elimination of a large number of government agencies and their reintegration into regular ministries.

[12] The authorities indicated that a large number of agencies would be closed down, but specific plans to operationalize this decision have not yet been made available.

- Second, while non-oil revenue mobilization efforts are essential, the enforcement of the budgetary contingencies and automatic spending rules (see above) in case of revenue shortfalls will also be a particularly critical component of the strategy. This will require stronger coordination between the Ministry of Economy (responsible for economic planning and tax collection) and the Budget Ministry (in charge of budget execution).
- Third, the Treasury will also need to step up efforts to mobilize resources in the domestic debt market according to a well-established calendar of issuances, consistent with meeting within year cash flow needs and the annual fiscal financing needs, and ensure that privatization plans (a key part of financing assumptions for 2018) are executed without further delay. The authorities agreed to prepare a privatization plan based on time-bound actions by end-September (MEFP ¶17). In addition, the Tax Authority will have to proceed expeditiously with its program of recovery of tax arrears.[13]
- Finally, the authorities have also committed to requesting a hold on planned acquisitions by the sovereign wealth fund (FGIS)[14] (MEFP ¶14).

B. Managing Domestic and External Arrears

20. Despite considerable efforts to reduce the stock of external and domestic arrears at end-2017, substantial problems reemerged in 2018. A firm and timely arrears clearance strategy, together with the enactment of strong fiscal measures to improve cash-flow and contingency risks will ensure effective debt management to prevent further accumulation of arrears.

- The renewed accumulation of external arrears risks undermining relationships with external creditors. As a corrective action for the waiver of non-compliance with the continuous QPC on external arrears, the authorities have cleared all external arrears to official bilateral creditors as well as multilateral and guaranteed claims of commercial creditors in July ahead of the completion of the second review. Arrears owed to remaining commercial creditors, whose claims are not guaranteed (approximately CFAF 37.8 billion by end-June), will be cleared by end-2018 and the authorities are making good-faith efforts to inform these creditors about their arrears clearance plan. The fiscal reforms undertaken by the authorities, including the revenue and expenditure measures, effective cash flow and debt management, and contingency planning for fiscal risks, will help ensure that further arrears accumulation is avoided in the future.
- The authorities have started to hold regular meetings to update their monthly cash flow plan of revenues, expenditures, loan disbursements, debt repayment schedules, and the

[13] 40 percent of the current stock of recoverable tax arrears will be collected by September 2018 (new structural benchmark).

[14] Acquisitions by the Sovereign Wealth Fund reduce the total amount of government deposits at BEAC and appear in fiscal tables as net lending, which was one of the sources of fiscal slippages in 2017.

remaining arrears clearance plan. This will help ascertain that there will be no short-term liquidity shortfall and the risk of re-accumulation of arrears is addressed.[15]

- Over time, a reasonable buffer should be built into the cash-flow plan in anticipation of possible temporary financing shortfalls. Funds required to cover shortfalls will be proactively mobilized to manage liquidity pressures, for example by issuing short-term T-bills (maturity of less than a year), so that the excessive reliance on cash balances is reduced.
- The main elements of the domestic arrears clearance strategy are unchanged, although the repayment calendar remains subject to the prevailing liquidity conditions. The stock of Treasury float will be cleared by end 2018, and the accumulation of new float will be limited to 15 percent of total expenditure on goods and services, transfers, and domestically-financed investment. The stock of VAT refund arrears will be gradually repaid through 2020.[16]

C. Accelerating Structural Fiscal Reforms

21. Progress on structural fiscal reforms to date has been limited. Full application of CEMAC customs tariffs and measures to improve taxpayers' registration were initiated in late 2017, avoiding a further deterioration of non-oil revenue collection. However, reforms to reduce and streamline tax exemptions and to address fraud need to be accelerated. Although recent actions have helped strengthen expenditure controls at the central government level, these reforms have not reached autonomous and semi-autonomous government entities. This has led to fiscal slippages that appeared under the "special accounts" spending category. More generally, fiscal oversight of public entities remains weak, and the fragmentation of cash management across multiple bank accounts raises issues of effective control and transparency.

22. The government agreed to take strong action to accelerate the implementation of reforms that have experienced recent delays and to advance other key reforms to ensure the success of the program. In particular,

- **Budget Formulation**. The authorities have prepared an updated debt strategy and an analysis of tax exemptions with their economic, budgetary, and social impact. This will help ensure a better process to finance the budget and assess whether tax exemptions are providing value for money.
- **Tax Audits**. Audits are ongoing to regularize the tax situation of importers not subject to VAT (those with transactions that exceed the VAT liability threshold). The resulting tax adjustments will be completed by end-December (MEFP ¶26). This measure is important to detect and address VAT fraud; it will also help mobilize immediate additional revenue. The

[15] The Directors of the Treasury and the Debt Unit are holding monthly meetings and their senior staff are meeting on a weekly basis. For important decisions, the Minister of Economy and the Minister of Budget are also holding frequent discussions. The President's office is also monitoring developments more closely than in the past.

[16] For background discussion of the Club de Libreville, please see footnote 6.

authorities noted that the implementation of this measure required more time given difficulties to reconcile accounting records with private sector companies

- **Customs administration**. Sensitization campaigns on the use of upfront payment as the regular procedure for clearing customs taxes have been completed, and the list and selection criteria for importers eligible for other forms of payment (on credit) for their tax obligations is being validated with representatives of the relevant sectors (MEFP ¶25). This reform will expedite collection of custom duties and alleviate the administrative burden to collect overdue taxes that is currently reducing institutional efficiency.

- **Expenditure-tracking and transparency**. The expenditure-tracking software used at the local level will be adapted to the new expenditure procedure[17] and fully deployed across all provinces before the completion of the review (MEFP ¶20), as well as the finalization of the census of all central government entities with funds not deposited on the Treasury Single Account (TSA). These measures are key to ensure the transparency of budget execution and cash management, and ascertain that payments for goods and services properly reflect their cost and that adequate procedures have been followed before a payment is issued.

- **Arrears monitoring**. The authorities have launched the independent audit of 2015 and 2016 domestic arrears, and the resulting report will be issued by end-September 2018. In addition, the authorities indicated that the report on the stock and the composition of arrears as of end-December 2017 will be published with the fiscal report on budget execution (MEFP ¶21). Both measures will improve the assessment and the monitoring of the stock of arrears to bring it under control.

- **Public investment management**. Cost-benefit analyses for major investment projects will be presented with the 2019 draft budget law for any projects exceeding CFAF 20 billion (MEFP ¶33). This will help ensure a better process for prioritization of public investment projects to ensure greater value for money.

23. New structural reforms will be introduced to consolidate existing measures in support of fiscal consolidation efforts.

- **Enhanced Expenditure Controls**. Several measures will improve controls and financial oversight on special accounts' expenditure. An action plan will be adopted for the upgrade of financial information systems of public entities and departmental agencies, including those managing special accounts. A unit will also be created to compile financial data from these entities and a new decree will be published establishing harmonized statutes for public administrative institutions (MEFP ¶30).

- **Cash Management**. Efforts to streamline cash management will be intensified, with the closure and repatriation to the TSA of accounts opened at the publicly-owned state

[17] This reform aims to implement at the local level the same PFM controls that were introduced for the central government (through a prior action) in June 2017. It will strengthen systematic monitoring and control of all stages of the administrative phase of expenditure execution by local governmental units, and require suppliers or vendors to produce a purchase order before issuing a payment.

depository corporation (*Caisse des Dépôts*), and the inclusion in the 2019 budget law of a deferred VAT payment mechanism to be tested with the two oil companies and the national mining company (MEFP ¶22).

24. The authorities also committed to the implementation of structural reforms with medium-term impact.

- Revenue Administration. To support the modernization of revenue administration procedures, the authorities will implement the recently acquired customs multi-modal portal and finalize the text establishing the Gabonese Revenue Authority (MEFP ¶27–28).
- Rationalization of Exemptions. The authorities plan to accelerate the elimination of unjustified tax exemptions and strengthen joint audits by tax and customs staff (MEFP ¶23–24). To detect and prevent VAT fraud, the frequency of audits has already been stepped up, in addition to strengthening identification and monitoring of taxpayers (MEFP ¶26).
- PFM Reforms. The authorities agreed to continue to move toward the full implementation of the program budgeting reform, in compliance with the CEMAC directives on PFM (MEFP ¶32). This reform is crucial to modernize the PFM system and make it more efficient and transparent through better budget preparation, targeted controls on budget execution, a more comprehensive and accurate fiscal reporting system, and a better access to budget information.

D. Safeguarding Social Spending

25. The authorities are taking steps to improve monitoring and reporting of social spending. Pro-poor spending fell short of program targets in 2017, largely due to delays in the education investment program, which was deferred due to cash constraints (T (Text Table 5).[18] The authorities have committed to a better outcome in 2018, notably through the launch of a new program to improve education facilities across the country. Efforts are also underway to ensure that the most vulnerable Gabonese groups are protected, with a focus on improving program efficiency, reporting, and targeting. With World Bank support, social spending outcomes are now being tracked through performance based financing, which will strengthen cash allocation and service delivery, as well as facilitate more frequent (quarterly) reporting of outcomes. The authorities will use the national household survey (due in September 2018) to improve targeting of their social protection program (*Gabonais Economiquements Faibles,* or GEF) (MEFP ¶34). Finally, the authorities have also agreed with the World Bank on the need to remove the salary component of social safety nets and expand the priority spending floor under the program to include investment in primary/maternal care facilities and job training centers. All these steps are intended to provide a more accurate measure of pro-poor initiatives.

[18] The initial target for priority social programs emphasized spending on primary care and preventive health services. The authorities also noted that they had given priority to hospital care, which was not tracked under the initial indicative target.

26. The authorities agreed to produce quarterly fiscal reports including a focus on social expenditure on a regular basis. Staff also highlighted the importance of respecting legal provisions that limit modifications of the budget composition during its execution to ensure that allocations to social expenditure are executed in compliance with the budget law (MEFP ¶31-32).

Text Table 5. Gabon: Priority Spending Floor Under the EFF Arrangement
(Billions of CFA francs)

		2017		2018
		Prog.	Act.	Prog.
Health	Total	26.6	14.3	41.9
	Goods and services	14.6	11.2	11.3
	Transfers	12	3.1	6.5
	Investment	…	…	24.2
Education	Total	76.4	7.8	91.2
	Goods and services	10.9	7.3	15.3
	Transfers	…	…	55.6
	Investment	65.5	0.5	20.3
Safety nets and employment initiatives	Total	48.6	36.4	81.2
	Salaries (CNAMGS)	25.3	25.3	…
	Goods and services	0.4	0.4	1.9
	Transfers	22.9	10.7	32.3
	Investment	…	…	46.9
Total		151.6	58.5	214.3

Sources: Gabonese authorities; and World Bank.

E. Addressing Banking Sector Weaknesses

27. The resolution of the three public banks should be expedited to minimize fiscal costs. The situation of the three public banks in financial distress has deteriorated since 2015, with two already in liquidation and the other under management. The authorities will seek assistance to hire an international consultant in the next few months to assess options and prepare resolution plans. For the two banks in liquidation, the government agreed to abstain from making any decision (including paying indemnities) until the plan is finalized (MEFP ¶36-37). Staff also expressed concern about the government's recent acquisition of additional shares in BICIG (the third largest Gabonese bank). The government now owns 75 percent of its shares which could give rise to risks of undue political influence on lending decisions. The authorities noted that this situation is transitory and are developing plans to divest their controlling stake.

28. A key continuing financial sector vulnerability is also the trend rise in non-performing loans. While capital adequacy ratios meet minimum standards and the banking sector remains broadly sound, there has been little progress in strengthening the legal and supervisory framework for NPLs. Staff expressed disappointment at the slow pace of financial sector reforms and the need to avoid complacency given rising financial sector vulnerabilities. The authorities agreed to expedite reform efforts and explained that the training of specialized judges, establishment of commercial courts and modernization of the real estate credit registry have been delayed due to financial constraints. They have now established a new timetable to achieve these objectives in gradual steps (MEFP ¶38). The draft plan specifies objectives, responsible parties, and a monthly monitoring mechanism. In the near term, the authorities indicated that the implementation of the plan to repay domestic arrears should buttress financial sector stability, while steps will also be taken to make progress on the legal framework to deal with NPLs. This will be achieved by establishing court and out-of-court mechanisms, training of specialized judges, and strengthening the commercial courts.

29. Improving the financing of small and medium-sized enterprises (SMEs) would support economic development and financial inclusion. The authorities concurred that efforts to finance SMEs via direct loans from *Banque Gabonaise de Developpement* (BGD) have largely failed to catalyze private sector growth. As a result, they agreed to explore the idea of supporting economic diversification through indirect channeling of funds to SMEs through commercial banks, which are better placed to identify potentially viable projects (MEFP ¶39). In this regard, the authorities are considering setting up of a guarantee fund for SMEs that will: (i) consolidate all Gabonese Funds and initiatives in favor of SMEs to enhance their impact; and (ii) support SMEs in preparing funding and business plans to facilitate the assessment of project feasibility and access to credit from commercial banks.

F. Reforms to Foster Private Sector Development

30. Gabon's external position in 2018 is assessed to be weaker than implied by fundamental and desirable policies (Annex 2). It has used Special Economic Zones and Public-Private Partnerships to attract significant private investment, particularly in agri-business, forestry, and mining. However, building upon these growth sectors to improve competitiveness and generate positive spillovers will require stepping up structural reforms to address the relatively weak enabling business environment (MEFP ¶41). Positive steps have included the introduction of a new PPP framework, with a PPP Committee to evaluate new proposals for PPPs. Staff underlined the importance of reforms in the judicial system, particularly the operationalization of the new arbitration chamber for business disputes (expected by September 2018) and encouraged efforts to improve the training of special judges, establishing commercial courts, and modernizing the credit registry. Although the government remains committed to joining EITI, progress has stalled, and staff pressed for the operationalization of the EITI interest group (MEFP ¶42).

PROGRAM MODALITIES AND FINANCING ASSURANCES

31. The BEAC and COBAC have pursued the implementation of their policy commitments and provided new policy assurances in support of CEMAC countries' programs. Implementation of previous commitments included tighter monetary policy, the elimination of statutory advances, and maintaining firm control over the extension of credit to banks. Moreover, regional NFA accumulation up to December 2017 was in line with projections and corrective actions addressing recent fiscal slippages in some CEMAC countries are being implemented to put NFA accumulation back on a desired upward path, following the underperformance in early 2018. The BEAC also provided new policy assurances aimed at enhancing monetary policy transmission and reinforcing centralization of foreign exchange reserves at BEAC, which will be critical for the success of the CEMAC countries' programs. These policy assurances include the completion by end-2018 of the modernization of the monetary policy operations framework and the submission (for adoption) to the UMAC ministerial committee by end-2018 of revised foreign exchange regulations. Moreover, the policy assurance on achieving the projected regional NFA accumulation is based on BEAC's commitment to implement an adequately tight monetary policy together with the commitment by the member states to implement adjustment policies in the context of IMF-supported programs. These policy assurances are critical for the success of Gabon's program as they will support rebuilding sufficient external reserves cover for the external sustainability of the region, and hence for Gabon.[19]

32. **The program remains fully financed.** Financing needs for the next 12 months will be met by a combination of external borrowing, budget support and Fund financing. There are good prospects to achieve the projected financing in 2019 and beyond, provided the authorities implement their fiscal consolidation program as planned, with the remaining access under the EFF arrangement contributing to the closing of the external financing gaps (Table 4a and 4b) while bringing international reserves up to comfortable levels.

33. **Gabon has outstanding arrears with commercial creditors,** The Gabonese authorities have indicated their intention to resolve approximately CFAF 37.8 billion in commercial (non-guaranteed) arrears by the end of the year, which arose due to past and ongoing fiscal difficulties. In line with the Fund's Lending-into-Arrears Policy, staff has ascertained that Gabon is making a good faith effort to reach a collaborative agreement with these commercial creditors. The authorities have shared relevant information regarding their financial difficulties, ascertained their commitment to clear the arrears by end-2018 and provided creditors with an opportunity to give inputs on their strategy to clear commercial arrears. As prompt Fund financial support is considered essential for the successful implementation of Gabon's program and Gabon is pursuing appropriate policies, the Fund may provide financing to Gabon notwithstanding its external arrears to commercial creditors.

34. **Capacity to repay the Fund (Table 7).** Gabon's capacity to meet potential repayment obligations to the Fund remains adequate, albeit subject to significant risks. In the case of full drawing of the amount under the EFF (Table 8), repayments to the Fund at the end of the projection period (2023) would remain manageable at 0.4 percent of GDP, or 2.5 percent of gross reserves. Although public debt is expected to remain high during the program period, strong program implementation would put it on a firm downward path. Gabon has a strong record of repayment to the Fund.

35. **Safeguards Assessment**. A full safeguards assessment under the periodic four-year cycle for regional central banks was completed in August 2017. The assessment noted the positive steps taken by the BEAC to strengthen governance in its charter provisions and plans to strengthen financial reporting transparency through full transition to IFRS. The BEAC continues to implement the outstanding recommendations from the 2017 assessment.

36. **Program modalities**. The report proposes new program performance criteria for end-2018 and introduces new structural benchmarks for 2018-19 (Table 12). The authorities are requesting a waiver of nonobservance for the continuous performance criterion on external arrears accumulation and two end-June performance criteria (non-oil primary fiscal balance and net central bank claims

[19] See Staff Report on Common Policies of CEMAC Member Countries (June 2018).

on the government) which based on available information has not been observed, as well as a waiver of applicability for the end-June performance criteria on net claims of the banking system on the government, and on contracting or guaranteeing of external debt, for which data are not yet available, but for which there is no indication that they may have been missed. Staff assesses that the waiver of nonobservance can be recommended to the Board given the corrective actions taken by the authorities (Text Table 6). A new QPC is also proposed, elevating the indicative target on non-oil revenue starting with the end-December 2018 target.

Text Table 6. Gabon: Proposed Prior Actions for Completion of the 2nd EFF Review

Measure	Macroeconomic Rationale	Related Documentation	Completed
Cancellation of 1.5 percent expenditure appropriations under the 2018 Budget Law equivalent to 0.3 percent of GDP.	Relieve liquidity pressures and maintain fiscal sustainability	The executive order prepared by the Budget Minister, signed by the Prime Minister and transmitted to the Parliament for information.	Met (July 11, 2018)
Senate Adoption of 2018 Supplementary Budget.	Fiscal sustainability	Copy of the draft 2018 Supplementary Budget and press release announcing adoption of the Supplementary Budget.	Met (June 29, 2018)
Adapt the E-BOP information system to the new expenditure execution procedure to allow the systematic issuance of purchase orders, and train local staff concerned in the new procedure.	Improve transparency and efficiency of public spending	Copies of the order forms issued by the system and launch of the training program.	Met (July 10, 2018)
List all central government entities whose funds are not deposited on the Treasury single account.	Improve and rationalize cash flow management	Inventory submitted to IMF staff.	Met (July 11, 2018)
Transmit a letter to the Fonds Gabonais d'Investissements Strategiques (FGIS) requesting to put on hold planned acquisition of assets in 2018.	Maintain fiscal discipline and sustainability	Copy of the letter signed by Economy and Budget Ministers.	Met (July 10, 2018)
Elimination of duty exemptions under the "program to combat high cost of living" (*programme de lutte contre la vie chère*).	Boost revenue collection	Order of the Economy Minister listing relevant goods and tariffs and requesting the update of the customs IT system; Provision in the 2018 Supplementary Budget detailing exemptions that are maintained; Published press release announcing the measure.	Met (July 10, 2018)

Sources: Gabonese authorities and IMF staff.

37. **Risks to program implementation.** Risks remain elevated given recent slippages in program implementation and possible social protests if the government fails to explain the importance of its reform efforts across the political spectrum and civil society. Such risks are mitigated by the adoption of a supplementary budget by the Senate (prior action) and the authorities' signaling effect through measures that signal greater transparency and rigor in the management of public finances. In addition, the authorities have taken steps to improve program coordination and reform implementation through regular meetings between the Budget and Economy Ministers, and the President's office. This will ensure that reform efforts are prioritized at the highest political level.

STAFF APPRAISAL

38. **The coordinated CEMAC effort to address fiscal and external imbalances since December 2016 has stabilized the region, but the recovery remains fragile.** Although BEAC reserves are stabilizing, supported by adjustment in Gabon and other CEMAC countries as well as external financing from development partners, the adjustment has been uneven across the region.

In particular, fiscal consolidation has fallen short of program objectives in some countries and regional reserves' accumulation underperformed during early 2018.

39. Gabon continues to have a significant role to play in the region, and although the economic environment remains difficult, there are some encouraging signs of stability. While traditional sectors (oil, commerce and services) are weak, Gabon avoided a recession thanks to robust economic activity in new sectors. The authorities' efforts to attract new investments in the non-oil commodity sectors (manganese, forestry), the special economic zone (SEZ) and agribusiness have been positive. This is contributing to the diversification and resilience of the economy. Broader reforms of the business environment could help attract even more investment and support the objective of achieving growth rates of 4-5 percent over the medium-term.

40. The recently approved supplementary budget envisages a robust fiscal consolidation package. This can provide decisive momentum to a series of reforms that will place public finances on a sustainable path. The overall fiscal deficit (cash basis) is expected to improve from 3.4 to 0.2 percent of GDP. This will contribute to a substantial decline in the overall level of public debt. In addition, the non-oil primary balance (in percent of non-oil GDP) is projected to improve from 9.7 to 7.1 percent, suggesting robust fiscal consolidation efforts that are not dependent on the impact of the recent increase in oil prices.

41. However, the authorities need to improve their track record implementing program commitments. The effective implementation of the fiscal plans embedded in the supplementary budget will depend on decisive reforms that seem politically difficult and subject to substantial risk of reversals.

- On the revenue side, the elimination of the extensive and largely ineffective program of custom duty exemptions, and the removal of favorable tax treatment (especially at customs) given to some firms could face resistance from economic operators that have so far benefited disproportionately from these programs.
- On the expenditure side, the ambitious program of wage bill reform (including salary reductions and elimination of some bonuses) could trigger social protests. The authorities will need to step up their consultation and communication efforts. The announcement of measures that reduce spending by the Presidency and government ministries, including a reduction of perks by senior government officials can have a positive signaling effect if the authorities implement the new program as planned.
- Finally, to increase social acceptance and sustain reform efforts over time, a stronger commitment to critical social spending programs will also be needed. This will help offset the impact of the fiscal consolidation program and ensure that vulnerable groups are adequately protected. Timely servicing of all external and domestic debt obligations to avoid any further arrears accumulation will also be critical to ensure program success.

42. Better institutional coordination and adequate fiscal risk management have also become urgent priorities. Staff responsible for tax collection and economic planning (Ministry of

Economy), and those in charge of budget execution (Budget Ministry) will need to step up economic policy coordination efforts to prevent fiscal slippages and delays in the implementation of structural reforms that were observed over the first year of the program. The new system of automatic spending adjustments when non-oil revenue underperforms will play a key role to ensure fiscal discipline and avoid recurrent problems of arrears accumulation. Similarly, if privatization plans or access to domestic debt markets fall below expectations, the authorities will need to ensure that the relatively large budget contingency/reserve is not released so that lower spending ceilings are enforced.

43. Progress on the structural reform agenda is essential to increase the efficiency and transparency of public finances. Decisive tax reforms are needed to ensure that excessive use of ad hoc, and sometimes opaque, tax exemptions do not erode the revenue base at a time when domestic revenue mobilization is a key component of the authorities' strategy. Better expenditure tracking, especially of the operations carried out by semi-autonomous government units (special accounts), completion of an audit of possible extrabudgetary operations, and cost-benefit analysis of public investment projects are all needed reforms that have experienced implementation delays. Failure to make progress in these areas would compromise the authorities' ability to meet their budget objectives, and undermine the diversification strategy needed to sustain higher growth. Capacity building efforts (including technical assistance from the Fund) will continue to play a key role in helping the authorities identify and implement key reforms taking into account capacity constraints and adequate sequencing.

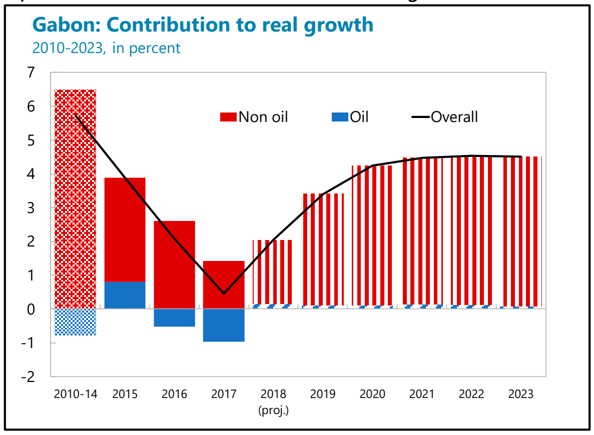
44. Close monitoring of financial sector risks will require more decisive steps to deal with the challenge of domestic arrears and the three public banks in distress. The repayment of domestic arrears, especially those that heavily affect small and medium enterprises, will help boost economic confidence. However, special attention will have to be paid to ensure that the receipt of goods and services from government suppliers has been properly certified—an area that poses challenges given delays in the conclusion of independent audit. At the same time, while the three public banks in distress are relatively small and do not pose systemic risks, the government should expedite the preparation of plans to assess options to resolve their situation and limit fiscal costs.

45. Staff recommends granting a waiver for the nonobservance of the end-June 2018 quantitative and continuous performance criteria, on the basis of corrective measures and based on the adequate implementation of the regional policy assurances, completion of the financing assurances review and approval of the authorities' request for completion of the second review of the Extended Arrangement. While program performance since the first review fell below expectations, the authorities have taken some decisive steps to keep the program on track going forward. This is demonstrated by the adoption of six prior actions and implementation of several structural reforms that had experienced delays. They have also strengthened program monitoring, develop a communication strategy to explain policy choices, and included some new compensatory social measures. The fact that many of these reforms (including civil service reform) were designed by an intergovernmental task force endorsed by the President will also increase program ownership. The attached Letter of Intent (LOI) and Memorandum of Economic and

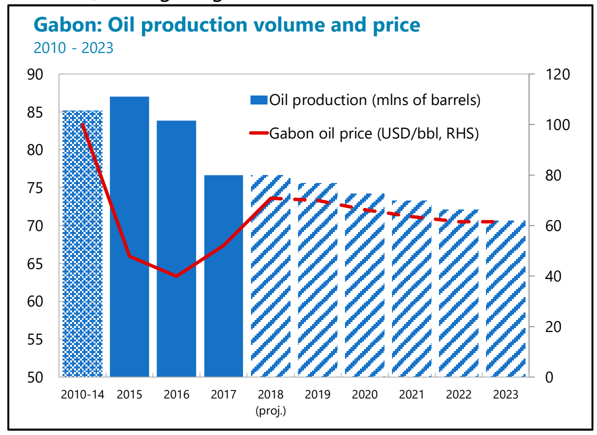
Financial Policies (MEFP) set out appropriate policies to pursue the program objectives. The capacity to repay the Fund is adequate, and risks to program implementation are manageable given the government's commitment to program objectives. Staff proposes that completion of the third EFF review be conditional on the implementation of critical policy measures at the union level, as established in the June 2018 union-wide background paper.

Figure 1. Gabon: Selected Economic Indicators and Outlook

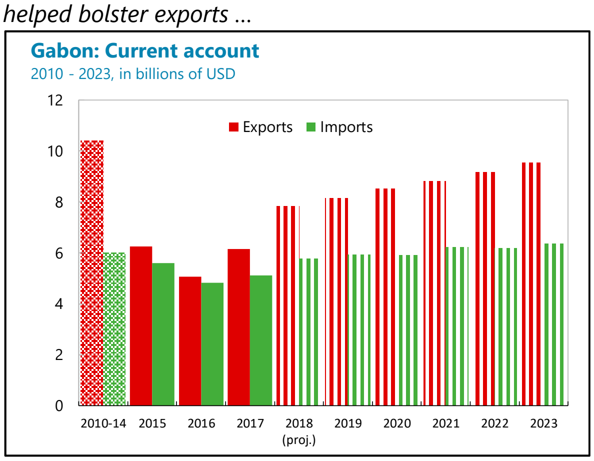
The oil price shock has caused a slowdown, but new export commodities will bolster non-oil growth …



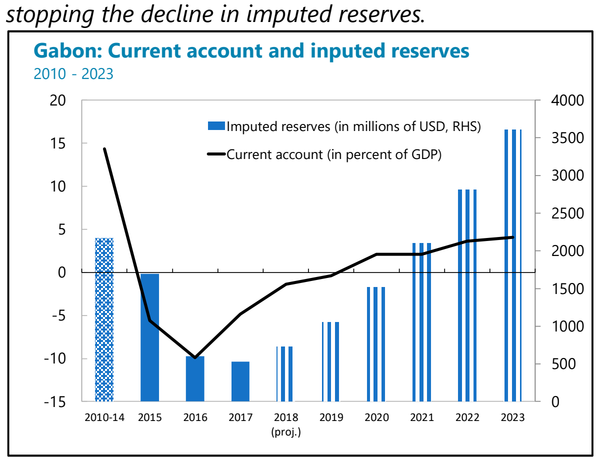
… and the recovery of oil prices suggest the oil sector will be less of a drag on growth.



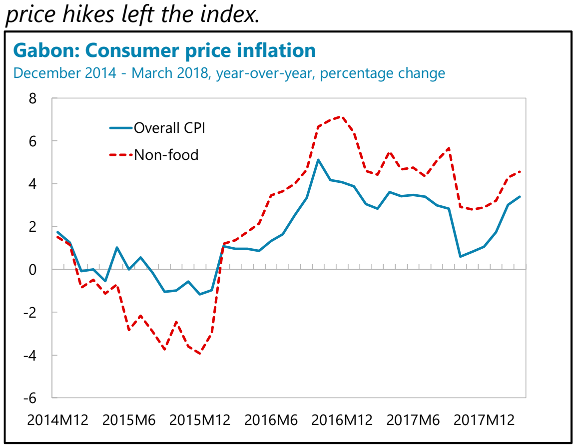
Higher oil prices and increasing mining activity have also helped bolster exports …



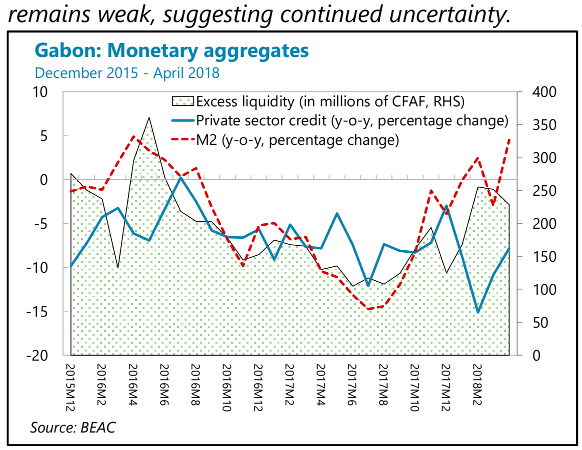
… reversing the deterioration of the current account and stopping the decline in imputed reserves.



Inflation slowed in late 2017 as the effect of 2016 fuel price hikes left the index.



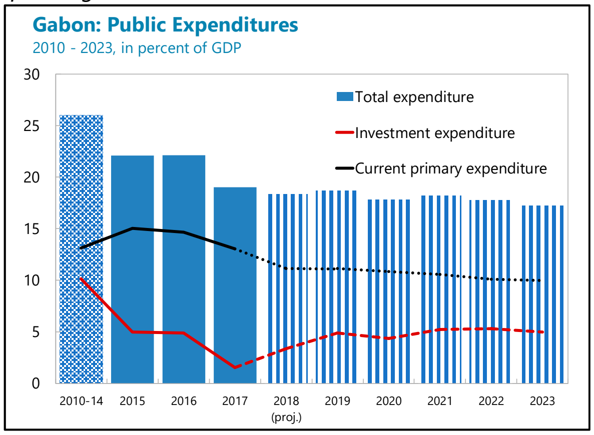
Monetary liquidity is improving, but credit growth remains weak, suggesting continued uncertainty.



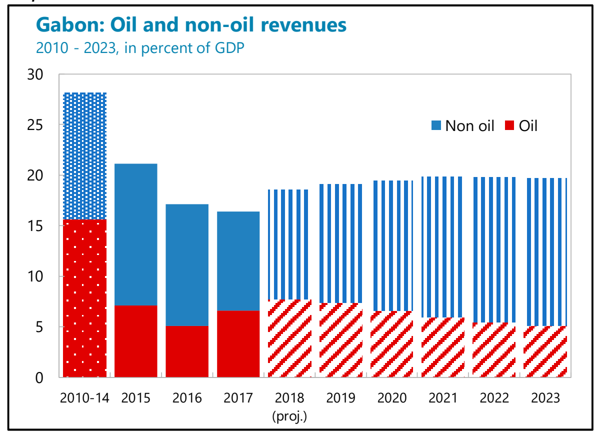
Sources: Gabonese authorities and IMF staff estimates.

Figure 2. Gabon: Fiscal Indicators and Outlook

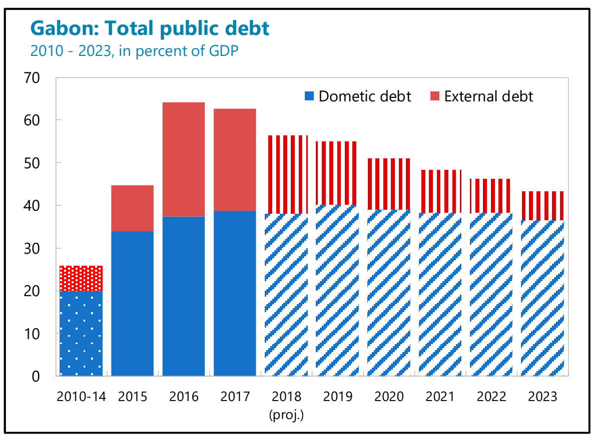
Spending adjustment has largely been borne by capital spending …



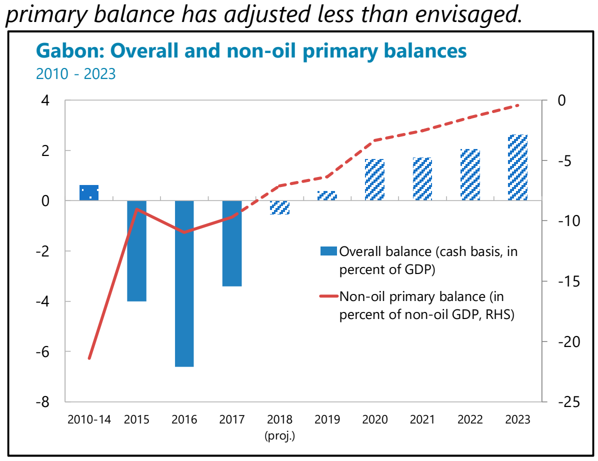
… as the oil price shock and lower economic activity impacted oil and non-oil revenue …



… contributing to an elevated level of public debt.



The overall balance has improved, but the non-oil primary balance has adjusted less than envisaged.



Sources: Gabonese authorities and IMF staff estimates.

Table 1. Gabon: Selected Economic Indicators, 2015–23

	2015	2016	2017		2018		2019		2020		2021	2022	2023
			Prog. 1/	Prel.	Prog. 1/	Proj.	Prog. 1/	Proj.	Prog. 1/	Proj.		Proj.	
	(Annual percent change, unless otherwise indicated)												
Real sector													
GDP at constant prices	3.9	2.1	0.8	0.5	2.7	2.0	3.7	3.4	4.3	4.2	4.5	4.5	4.5
Oil	4.0	-2.7	-3.0	-5.1	1.5	0.8	0.1	0.6	0.2	0.6	0.8	0.8	0.5
o/w primary oil	8.6	-3.7	-5.9	-8.5	0.8	0.0	-1.5	-1.5	-1.8	-1.8	-1.3	-1.6	-2.1
Non-oil	3.8	3.3	1.7	1.7	3.0	2.3	4.5	4.0	5.2	5.0	5.2	5.2	5.2
GDP deflator	-8.9	-4.3	4.1	3.9	-0.3	7.1	1.4	0.0	1.6	0.2	0.2	-1.0	0.5
Oil	-20.2	-11.9	11.3	15.8	-4.9	18.5	0.4	-0.9	1.2	-4.5	-2.0	-2.0	0.3
Primary oil	-24.3	-16.1	18.0	25.2	-7.2	28.1	0.6	-0.7	1.1	-6.4	-4.5	-3.7	-0.3
Consumer prices													
Yearly average	-0.1	2.1	3.0	2.7	2.8	2.8	2.5	2.5	2.5	2.5	2.5	2.5	2.5
End of period	-1.2	4.1	3.0	1.1	2.8	2.8	2.5	2.5	2.5	2.5	2.5	2.5	2.5
External sector													
Exports, f.o.b.	-26.8	-19.2	18.9	22.8	1.9	21.1	5.1	4.4	10.9	3.8	2.5	2.5	3.0
Imports, f.o.b.	-0.4	-21.3	4.5	6.3	3.4	8.6	3.3	2.3	5.6	-2.9	6.5	1.3	2.9
Terms of trade (deterioration= –)	-44.9	-10.2	21.2	28.0	-4.8	29.3	-1.0	-2.2	-0.5	-7.6	-6.2	-5.1	-2.0
Central government finance													
Total revenue	-32.8	-20.8	7.7	-0.1	3.8	23.7	9.8	6.3	6.4	6.3	7.1	3.1	4.3
Oil revenue	-54.4	-29.9	44.5	35.8	-17.1	28.2	-0.8	-2.0	-0.2	-7.1	-5.3	-4.8	-2.2
Total expenditure	-11.4	-4.0	-6.6	-13.5	0.4	3.9	5.2	11.4	3.3	-0.5	6.9	1.0	1.7
	(Percent of GDP, unless otherwise indicated)												
Overall fiscal balance (commitment basis)	-1.0	-5.0	-2.3	-2.6	-1.2	0.5	-0.5	0.5	0.1	1.8	1.8	2.2	2.6
Primary fiscal balance (commitment basis)	1.1	-2.7	0.6	-0.1	1.3	3.1	2.2	3.1	2.7	4.2	4.1	4.4	4.7
Overall fiscal balance (cash basis)	-4.0	-6.6	-3.6	-3.4	-2.3	-0.3	-0.4	0.5	0.1	1.8	1.8	2.2	2.7
Non-oil primary balance (in percent of non-oil GDP)	-9.0	-11.0	-9.2	-9.7	-6.1	-7.1	-4.3	-6.4	-3.1	-3.3	-2.5	-1.5	-0.5
Non-oil primary basic balance (in percent of non-oil GDP) 2/	-5.8	-6.9	-6.1	-8.6	-2.2	-5.4	0.2	-1.9	1.3	-0.1	1.8	3.3	2.9
Gross government deposits in BEAC	6.1	2.4	2.5	3.2	3.1	3.4	4.8	4.4	4.8	5.7	7.8	10.0	12.9
Total public debt 3/	44.7	64.2	59.0	62.7	59.1	56.0	57.4	54.4	53.0	50.3	47.5	45.5	42.5
External public debt (including to the IMF)	33.9	37.4	36.6	38.7	41.0	38.0	42.7	40.3	41.0	39.0	38.3	38.3	36.7
Domestic public debt	10.8	26.8	22.4	24.0	18.1	18.0	14.8	14.1	12.0	11.3	9.3	7.2	5.9
o/w statutory advances from BEAC	5.3	5.4	5.2	5.2	5.1	4.8	4.8	4.6	4.5	4.4	4.2	3.6	3.0
	(Percent change, unless otherwise indicated)												
Money and credit													
Credit to the economy	-9.8	-5.6	-9.3	-3.0	3.2	-6.9	10.2	7.6	10.8	9.0	12.1	12.2	13.8
Broad money	-1.4	-5.2	2.6	-3.9	9.5	9.2	7.1	13.4	13.5	10.3	5.9	2.4	6.0
Velocity ratio of Non-oil GDP over broad money	2.6	2.8	3.2	3.2	2.8	3.0	2.8	2.9	2.8	2.8	2.8	2.8	2.7
	(Percent of GDP, unless otherwise indicated)												
Gross national savings	29.2	24.3	26.5	25.6	27.0	28.9	28.3	30.7	30.5	32.7	32.7	33.5	33.6
Gross fixed investment	34.8	34.2	31.9	30.4	32.7	30.3	33.3	31.1	33.4	30.6	30.6	29.9	29.6
o/w private	29.8	29.3	28.5	28.9	28.5	27.0	28.6	26.2	28.7	26.2	25.4	24.6	24.6
public	5.0	4.9	3.4	1.5	4.2	3.3	4.6	4.9	4.7	4.4	5.2	5.3	5.0
Current account balance	-5.6	-9.9	-5.4	-4.9	-5.7	-1.5	-5.0	-0.4	-2.8	2.1	2.1	3.6	4.0
excl. large agri-industry projects 4/	-3.6	-7.8	-3.3	-2.5	-2.3	1.2	-1.8	1.5	-0.5	3.0	1.6	2.0	0.0
CEMAC Foreign Reserves													
(US$ billions, end-of-period)	10.3	5.0	5.9	5.8	7.2	7.5	8.4	9.1	10.0	10.2	11.7	13.1	14.3
(in months of extrazone imports)	4.3	2.3	2.7	2.4	3.0	3.1	3.6	3.7	4.2	3.9	4.5	4.9	5.2
	(CFA francs billion, unless otherwise indicated)												
Memorandum items													
Nominal GDP	8,503	8,311	8,728	8,673	8,936	9,476	9,394	9,802	9,956	10,236	10,713	11,084	11,638
Nominal non-oil GDP	5,676	5,885	6,108	6,007	6,406	6,289	6,852	6,625	7,376	7,186	7,698	8,106	8,634
National currency per U.S. Dollar (average)	591	593	582	581	..	..	..	..	..	..	..	..	..
Oil prices (Brent, U.S. Dollar/BBL)	51	43	51	54	51	73	52	72	53	69	66	64	63

Sources: Gabonese authorities and IMF staff estimates and projections.

1/ Staff report for the First Review of the Extended Arrangement Under the Extended Fund Facility (December 5, 2017; IMF Country Report No. 17/408).

2/ Excludes foreign financed capital expenditures.

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

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

Table 2. Gabon: Balance of Payments, 2015–23

	2015	2016	2017		2018		2019		2020		2021	2022	2023
			Prog. 1/	Est.	Prog. 1/	Proj.	Prog. 1/	Proj.	Prog. 1/	Proj.		Proj.	
	(Billions of CFAF)												
Current account	-474	-823	-474	-421	-511	-138	-468	-40	-282	213	224	403	471
Goods (net)	1,318	1,107	1,544	1,620	1,549	2,171	1,660	2,304	1,935	2,516	2,509	2,596	2,675
Export of goods (fob)	3,315	2,679	3,187	3,291	3,248	3,986	3,415	4,161	3,788	4,320	4,429	4,540	4,675
Hydrocarbons	2,494	1,941	2,174	2,234	2,045	2,813	2,029	2,757	2,025	2,562	2,427	2,310	2,261
Timber	293	335	352	361	458	387	481	402	577	483	505	527	551
Manganese	421	279	501	534	533	575	561	659	643	736	806	816	830
Other	108	125	161	161	212	211	345	342	543	539	691	887	1,032
Import of goods (fob)	-1,997	-1,572	-1,643	-1,671	-1,699	-1,815	-1,755	-1,858	-1,854	-1,804	-1,920	-1,944	-2,000
Petroleum sector	-242	-228	-256	-263	-241	-331	-239	-324	-237	-321	-317	-313	-308
Other	-1,755	-1,344	-1,388	-1,408	-1,458	-1,484	-1,516	-1,533	-1,617	-1,483	-1,603	-1,632	-1,692
Services (net)	-930	-964	-1,001	-1,011	-1,029	-1,041	-1,086	-1,095	-1,155	-1,099	-1,104	-993	-974
Exports	382	325	281	285	294	299	306	309	326	302	339	383	434
Imports	-1,312	-1,289	-1,282	-1,296	-1,323	-1,340	-1,393	-1,404	-1,480	-1,401	-1,443	-1,376	-1,408
Income (net)	-718	-785	-831	-844	-847	-1,074	-855	-1,054	-882	-1,018	-995	-1,013	-1,042
Current transfers (net)	-143	-181	-186	-186	-185	-194	-187	-195	-180	-186	-186	-187	-188
Capital account	0	0	0	0	0	0	0	0	0	0	0	0	0
Financial account	247	180	-16	-118	294	-74	440	51	496	6	91	-30	-49
Direct investment (net)	586	736	735	785	949	864	1,045	1,013	1,034	906	665	600	632
Portfolio investments (net)	-23	0	0	0	0	0	0	0	0	0	0	16	0
Other investment assets and liabilities (net)	-316	-556	-752	-903	-655	-938	-605	-962	-538	-901	-574	-647	-681
Medium- and long-term transactions	-36	-84	-258	-246	0	-268	25	-7	12	-88	10	28	-57
o/w Net Arrears Accumulation		165	-165	-40	0	-123							
Short term transactions	-280	-471	-494	-657	-655	-670	-630	-956	-550	-813	-584	-675	-625
Errors and Omissions	4	0	0	0	0	0	0	0	0	0	0	0	0
Overall balance	-223	-643	-490	-539	-217	-212	-28	11	214	218	314	373	422
Financing	223	643	490	539	217	212	28	-11	-214	-218	-314	-373	-422
Bank of Central African States	223	643	-3	51	-75	-90	-132	-178	-214	-248	-314	-373	-422
Change in net reserve assets (- is an increase)				-60	-187	-202	-244	-290	-242	-276	-310	-354	-380
IMF-EFF flows			117	111	112	112	112	112	28	28	-5	-19	-42
Financing Gap	0	0	493	488	292	302	160	167	0	29	0	0	0
Of which:													
Bilateral			49	49	49	49	49	49	0	0	0	0	0
Multilateral			444	439	243	253	111	118	0	29	0	0	0
Memorandum items:	(Percent of GDP)												
Current account	-5.6	-9.9	-5.4	-4.9	-5.7	-1.5	-5.0	-0.4	-2.8	2.1	2.1	3.6	4.0
excl. large agri-industry projects 2/	-3.6	-7.8	-3.3	-2.5	-2.3	1.2	-1.8	1.5	-0.5	3.0	1.6	2.0	1.2
Oil	12.7	5.9	8.1	8.3	6.2	10.5	5.6	9.6	4.8	7.7	6.4	5.7	4.8
Non-oil	-18.3	-15.8	-13.6	-13.1	-11.9	-12.0	-10.6	-10.0	-7.6	-5.6	-4.3	-2.1	-0.7
Exports of goods and services	43.5	36.2	39.7	41.2	39.6	45.2	39.6	45.6	41.3	45.1	44.5	44.4	43.9
Imports of goods and services	-38.9	-34.4	-33.5	-34.2	-33.8	-33.3	-33.5	-33.3	-33.5	-31.3	-31.4	-30.0	-29.3
Capital and financial accounts	2.9	2.2	5.5	4.3	6.6	2.4	6.4	2.2	5.0	0.3	0.8	-0.3	-0.4
Foreign Direct Investment	6.9	8.9	8.4	9.1	10.6	9.1	11.1	10.3	10.4	8.9	6.2	5.4	5.4
Overall balance 3/	-2.6	-7.7	0.0	-0.6	0.8	1.0	1.4	1.8	2.1	2.4	2.9	3.4	3.6
	(Billions of CFAF, unless otherwise indicated)												
Imputed reserves (end of period) 4/	1001.1	358.2	361.3	307.2	436.1	397.3	568.0	574.9	782.9	831.8	1154.7	1543.5	1979.8

Sources: Gabonese authorities and IMF staff estimates and projections.

1/ Staff report for the First Review of the Extended Arrangement Under the Extended Fund Facility (December 5, 2017; IMF Country Report No. 17/408).

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

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

4/ Nationally imputed reserves are not foreign exchange reserves, since they do not meet the standard set out in the IMF's Balance of Payments Manual, which requires foreign reserves to be readily available to and controlled by monetary authorities for meeting balance of payments financing needs. However, under the statutes of the BEAC, if a country's imputed reserves fall below zero, the CEMAC Council of Ministers can call for adjustment measures. Private sector access to foreign exchange is not affected by the level of nationally imputed reserves, but only its access to CFAF and the availability of foreign reserves at the level of the union.

Table 3a. Gabon: Central Government Accounts, 2015–23

(Billions of CFA francs)

	2015	2016	2017		2018		2019		2020		2021	2022	2023
			Prog. 1/	Est.	Prog. 1/	Proj	Prog. 1/	Proj.	Prog. 1/	Proj.		Proj.	
Total revenue and grants	1,797	1,424	1,533	1,423	1,592	1,760	1,748	1,871	1,861	1,989	2,129	2,196	2,290
Revenue	1,797	1,424	1,533	1,423	1,592	1,760	1,748	1,871	1,861	1,989	2,129	2,196	2,290
Oil revenue	603	423	611	574	507	736	503	721	502	670	635	605	591
Non-oil revenue	1,194	1,001	922	849	1,085	1,024	1,246	1,149	1,359	1,318	1,494	1,591	1,698
Tax revenue	1,158	899	861	770	1,028	941	1,142	1,063	1,248	1,224	1,393	1,485	1,585
Taxes on income, profits, and capital gains	398	300	301	271	336	324	359	341	387	395	443	466	497
Domestic taxes on goods and services	167	223	221	168	269	223	313	295	337	359	420	452	502
Value-added tax	101	155	167	112	186	139	224	177	241	221	272	287	325
Other	66	68	54	56	83	84	89	118	96	138	148	166	176
Taxes on international trade and transactions	355	277	271	246	345	318	386	345	434	372	425	456	469
Import tariffs	331	266	256	246	325	299	366	326	411	352	405	435	447
Export taxes	24	11	15	0	20	18	21	19	23	20	20	21	21
Other non-oil taxes	239	99	68	84	78	77	84	82	90	98	105	111	118
Non-tax revenue	36	102	61	79	57	82	103	87	111	94	101	106	113
Grants	0	0	0	0	0	0	0	0	0	0	0	0	0
Total expenditure and net lending	1,879	1,833	1,731	1,649	1,703	1,709	1,791	1,818	1,850	1,808	1,933	1,952	1,986
Current expenditure	1,449	1,413	1,351	1,350	1,321	1,295	1,355	1,337	1,385	1,361	1,374	1,363	1,408
Wages and salaries	715	731	732	733	715	657	710	682	710	711	731	713	743
Goods and services	241	252	179	167	180	170	188	176	199	184	182	188	198
Interest payments	172	193	249	219	229	240	251	247	259	250	245	243	248
Domestic	44	61	75	80	75	78	74	90	72	83	76	68	60
Foreign	128	114	174	139	154	161	176	157	188	167	168	175	189
Transfers and subsidies	321	237	191	231	196	228	206	232	217	216	216	219	219
o/w: oil subsidies	80	27	25	35	20	20	0	0	0	0	0	0	0
Capital expenditure	423	405	299	133	372	316	436	480	464	447	559	589	578
Domestically financed	241	166	113	67	122	208	127	186	139	215	225	200	291
Foreign financed	183	239	186	65	250	109	310	294	325	232	334	389	287
Net lending	-13	25	35	79	0	78	0	0	0	0	0	0	0
Road Fund (FER) and special funds	18	19	14	20	10	7	0	0	0	0	0	0	0
Special accounts 2/	2	-29	32	67	0	13	0	0	0	0	0	0	0
Overall balance (commitment basis)	-82	-416	-197	-226	-111	50	-43	53	11	181	196	244	304
Adjustment to cash basis 3/	-259	-133	-119	-70	-98	-75	2	-2	3	3	1	-2	15
Overall balance (cash basis)	-341	-549	-317	-297	-209	-25	-41	51	15	184	197	242	319
Total financing	341	549	317	297	209	25	41	-51	-15	-184	-197	-242	-319
Foreign borrowing (net)	196	142	-173	-154	86	-155	115	110	105	25	137	176	44
Drawings	183	239	186	65	250	109	310	294	325	232	334	389	287
Amortization	-288	-244	-332	-306	-164	-183	-195	-184	-220	-207	-197	-501	-515
Arrears (reduction = -)	5	147	-147	-26	0	-80	0	0	0	0	0	0	0
Rollover (Eurobonds)	296	0	120	112	0	0	0	0	0	0	0	288	271
Domestic borrowing	213	417	-121	-151	-282	-235	-346	-440	-147	-266	-334	-418	-363
Banking system (net)	293	510	68	-101	-20	45	-186	-77	-32	-123	-292	-442	-406
Nonbank financing (net) 4/	-81	-93	-188	-50	-262	-280	-160	-363	-116	-144	-43	24	43
Financing gap (+=deficit / - surplus)	-68	-10	610	602	404	414	272	279	28	57	0	0	0
Exceptional financing (excluding IMF)	...	...	493	488	292	302	160	167	0	29	0	0	0
Residual gap	...	...	117	114	112	112	112	112	28	28	0	0	0
IMF-EFF	...	...	117	114	112	112	112	112	28	28	0	0	0
Remaining Gap				0		0	0	0	0	0	0	0	0
Memorandum items:													
Gross government deposits in BEAC	532.4	232.1	232.1	315.0	311.2	345.8	505.3	469.0	542.9	628.0	901.9	1215.3	1506.6
o/w Fund for Future Generations or Stabilization Fund	146.6	150.2	150.2	47.2	229.3	60.5	327.6	183.7	461.0	342.7	616.6	930.0	1221.3
Statutory advances from BEAC	452.5	452.5	452.5	452.5	452.5	452.5	452.5	452.5	452.5	452.5	452.5	402.5	352.5
Stock of arrears 5/	...	795.5	405.3	570.0	178.9	266.9	76.9	92.4	0.0	0.0	0.0	0.0	0.0
External	...	156.9	0.0	113.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	...	638.6	405.3	456.6	178.9	266.9	76.9	92.4	0.0	0.0	0.0	0.0	0.0
VAT Reimbursement	...	347.8	305.8	326.9	178.9	266.9	76.9	92.4	0.0	0.0	0.0	0.0	0.0
Exceptional float 6/	...	248.8	99.5	87.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt service	...	42.0	0.0	41.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-oil primary balance excluding capital transfers (NOPD)	-513	-646	-559	-582	-388	-446	-295	-422	-231	-240	-194	-118	-39
as percent of non-oil GDP	-9.0	-11.0	-9.2	-9.7	-6.1	-7.1	-4.3	-6.4	-3.1	-3.3	-2.5	-1.5	-0.5
Non-oil GDP at market prices	5,676	5,885	6,108	6,007	6,406	6,289	6,852	6,625	7,376	7,186	7,698	8,106	8,634

Sources: Gabonese authorities and IMF staff estimates and projections.

1/ Staff report on the First Review on the Extended Arrangement Under the Extended Fund Facility (December 4, 2017; IMF Country Report No. 17/408).

2/ Includes net transfers to special funds financed by earmarked revenues.

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

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

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

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

Table 3b. Gabon: Central Government Accounts, 2015–23

(Percent of GDP; billions of CFA francs)

	2015	2016	2017		2018		2019		2020		2021	2022	2023
			Prog. 1/	Est.	Prog. 1/	Proj.	Prog. 1/	Proj.	Prog. 1/	Proj.		Proj.	
Total revenue and grants	21.1	17.1	17.6	16.4	17.8	18.6	18.6	19.1	18.7	19.4	19.9	19.8	19.7
Revenue	21.1	17.1	17.6	16.4	17.8	18.6	18.6	19.1	18.7	19.4	19.9	19.8	19.7
Oil revenue	7.1	5.1	7.0	6.6	5.7	7.8	5.4	7.4	5.0	6.5	5.9	5.5	5.1
Non-oil revenue	14.0	12.0	10.6	9.8	12.1	10.8	13.3	11.7	13.7	12.9	13.9	14.4	14.6
Tax revenue	13.6	10.8	9.9	8.9	11.5	9.9	12.2	10.8	12.5	12.0	13.0	13.4	13.6
Taxes on income, profits, and capital gains	4.7	3.6	3.5	3.1	3.8	3.4	3.8	3.5	3.9	3.9	4.1	4.2	4.3
Domestic taxes on goods and services	2.0	2.7	2.5	1.9	3.0	2.3	3.3	3.0	3.4	3.5	3.9	4.1	4.3
Taxes on international trade and transactions	4.2	3.3	3.1	2.8	3.9	3.4	4.1	3.5	4.4	3.6	4.0	4.1	4.0
Other non-oil taxes	2.8	1.2	0.8	1.0	0.9	0.8	0.9	0.8	0.9	1.0	1.0	1.0	1.0
Non-tax revenue	0.4	1.2	0.7	0.9	0.6	0.9	1.1	0.9	1.1	0.9	0.9	1.0	1.0
Total expenditure and net lending	22.1	22.1	19.8	19.0	19.1	18.0	19.1	18.5	18.6	17.7	18.0	17.6	17.1
Current expenditure	17.0	17.0	15.5	15.6	14.8	13.7	14.4	13.6	13.9	13.3	12.8	12.3	12.1
Wages and salaries	8.4	8.8	8.4	8.4	8.0	6.9	7.6	7.0	7.1	6.9	6.8	6.4	6.4
Goods and services	2.8	3.0	2.0	1.9	2.0	1.8	2.0	1.8	2.0	1.8	1.7	1.7	1.7
Interest payments	2.0	2.3	2.9	2.5	2.6	2.5	2.7	2.5	2.6	2.4	2.3	2.2	2.1
Transfers and subsidies	3.8	2.9	2.2	2.7	2.2	2.4	2.2	2.4	2.2	2.1	2.0	2.0	1.9
o/w: oil subsidies	0.9	0.3	0.3	0.4	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	5.0	4.9	3.4	1.5	4.2	3.3	4.6	4.9	4.7	4.4	5.2	5.3	5.0
Domestically financed	2.8	2.0	1.3	0.8	1.4	2.2	1.4	1.9	1.4	2.1	2.1	1.8	2.5
Foreign financed	2.1	2.9	2.1	0.8	2.8	1.1	3.3	3.0	3.3	2.3	3.1	3.5	2.5
Net lending	-0.2	0.3	0.4	0.9	0.0	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Road Fund (FER) and special funds	0.2	0.2	0.2	0.2	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Special accounts 2/	0.0	-0.3	0.4	0.8	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (commitment basis)	-1.0	-5.0	-2.3	-2.6	-1.2	0.5	-0.5	0.5	0.1	1.8	1.8	2.2	2.6
Adjustment to cash basis 3/	-3.0	-1.6	-1.4	-0.8	-1.1	-0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Overall balance (cash basis)	-4.0	-6.6	-3.6	-3.4	-2.3	-0.3	-0.4	0.5	0.1	1.8	1.8	2.2	2.7
Total financing	4.0	6.6	3.6	3.4	2.3	0.3	0.4	-0.5	-0.1	-1.8	-1.8	-2.2	-2.7
Foreign borrowing (net)	2.3	1.7	-2.0	-1.8	1.0	-1.6	1.2	1.1	1.1	0.2	1.3	1.6	0.4
Drawings	2.1	2.9	2.1	0.8	2.8	1.1	3.3	3.0	3.3	2.3	3.1	3.5	2.5
Amortization	-3.4	-2.9	-3.8	-3.5	-1.8	-1.9	-2.1	-1.9	-2.2	-2.0	-1.8	-4.5	-4.4
Arrears (reduction = -)	0.1	1.8	-1.7	-0.3	0.0	-0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Rollover (Eurobonds)	3.5	0.0	1.4	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.6	2.3
Domestic borrowing (net)	2.5	5.0	-1.4	-1.7	-3.2	-2.5	-3.7	-4.5	-1.5	-2.6	-3.1	-3.8	-3.1
Banking system	3.4	6.1	0.8	-1.2	-0.2	0.5	-2.0	-0.8	-0.3	-1.2	-2.7	-4.0	-3.5
Non-bank sector 4/	-0.9	-1.1	-2.2	-0.6	-2.9	-3.0	-1.7	-3.7	-1.2	-1.4	-0.4	0.2	0.4
Financing gap (+=deficit / - surplus)	-0.8	-0.1	7.0	6.9	4.5	4.4	2.9	2.8	0.3	0.6	0.0	0.0	0.0
Exceptional financing (excluding IMF)	...	...	5.7	5.6	3.3	3.2	1.7	1.7	0.0	0.3	0.0	0.0	0.0
Residual gap	...	...	1.3	1.3	1.3	1.2	1.2	1.1	0.3	0.3	0.0	0.0	0.0
IMF-EFF	...	...	1.3	1.3	1.3	1.2	1.2	1.1	0.3	0.3	0.0	0.0	0.0
					(Billion of CFA francs, unless otherwise indicated)								
Total revenue and grants	1,797	1,424	1,533	1,423	1,592	1,760	1,748	1,871	1,861	1,989	2,129	2,196	2,290
Total expenditure and net lending	1,879	1,840	1,731	1,649	1,703	1,709	1,791	1,818	1,850	1,808	1,933	1,952	1,986
Overall balance	-82	-416	-197	-226	-111	50	-43	53	11	181	196	244	304
Memorandum items:													
Gross government deposits in BEAC (percent of GDP)	6.1	2.4	2.5	3.2	3.1	3.4	4.8	4.4	4.8	5.7	7.8	10.0	12.9
o/w Fund for Future Generations or Stabilization Fund	1.7	1.6	1.6	0.5	2.3	0.6	3.1	1.7	4.1	3.1	5.3	7.7	10.5
Non-oil primary balance excluding capital transfers	-513	-646	-559	-582	-388	-446	-295	-422	-231	-240	-194	-118	-39
As percent of non-oil GDP	-9.0	-11.0	-9.2	-9.7	-6.1	-7.1	-4.3	-6.4	-3.1	-3.3	-2.5	-1.5	-0.5
Public debt (percent of GDP)	44.7	64.2	59.0	62.7	59.1	56.0	57.4	54.4	53.0	50.3	47.5	45.5	42.5
External debt (percent of GDP)	33.9	37.4	36.6	38.7	41.0	38.0	42.7	40.3	41.0	39.0	38.3	38.3	36.7
Domestic debt (percent of GDP)	10.8	26.8	22.4	24.0	18.1	18.0	14.8	14.1	12.0	11.3	9.3	7.2	5.9
o/w Statutory advances from BEAC	5.3	5.4	5.2	5.2	5.1	4.8	4.8	4.6	4.5	4.4	4.2	3.6	3.0
Stock of arrears 5/	...	9.6	4.6	6.6	2.0	2.8	0.8	0.9	0.0	0.0	0.0	0.0	0.0
External	...	1.9	0.0	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	...	7.7	4.6	5.3	2.0	2.8	0.8	0.9	0.0	0.0	0.0	0.0	0.0
VAT Reimbursement	...	4.2	3.5	3.8	2.0	2.8	0.8	0.9	0.0	0.0	0.0	0.0	0.0
Exceptional float 6/	...	3.0	1.1	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt service	...	0.5	0.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
GDP at market prices	8,503	8,311	8,728	8,673	8,936	9,476	9,394	9,802	9,956	10,236	10,713	11,084	11,638

Sources: Gabonese authorities and IMF staff estimates and projections.

1/ Staff report on the First Review on the Extended Arrangement Under the Extended Fund Facility (December 4, 2017; IMF Country Report No. 17/408).

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

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

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

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

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

Table 3c. Gabon: Central Government Accounts, 2015–23

(Percent of non-oil GDP; billions of CFA francs)

	2015	2016	2017		2018		2019		2020		2021	2022	2023
			Prog. 1/	Est.	Prog. 1/	Proj.	Prog. 1/	Proj.	Prog. 1/	Proj.		Proj.	
Total revenue and grants	31.7	24.2	25.1	23.7	24.9	28.0	25.5	28.2	25.2	27.7	27.7	27.1	26.5
Revenue	31.7	24.2	25.1	23.7	24.9	28.0	25.5	28.2	25.2	27.7	27.7	27.1	26.5
Oil revenue	10.6	7.2	10.0	9.6	7.9	11.7	7.3	10.9	6.8	9.3	8.2	7.5	6.8
Non-oil revenue	21.0	17.0	15.1	14.1	16.9	16.3	18.2	17.3	18.4	18.3	19.4	19.6	19.7
Tax revenue	20.4	15.3	14.1	12.8	16.0	15.0	16.7	16.0	16.9	17.0	18.1	18.3	18.4
Taxes on income, profits, and capital gains	7.0	5.1	4.9	4.5	5.2	5.1	5.2	5.1	5.2	5.5	5.8	5.8	5.8
Domestic taxes on goods and services	2.9	3.8	3.6	2.8	4.2	3.5	4.6	4.4	4.6	5.0	5.5	5.6	5.8
Taxes on international trade and transactions	6.3	4.7	4.4	4.1	5.4	5.1	5.6	5.2	5.9	5.2	5.5	5.6	5.4
Other non-oil taxes	4.2	1.7	1.1	1.4	1.2	1.2	1.2	1.2	1.2	1.4	1.4	1.4	1.4
Non-tax revenue	0.6	1.7	1.0	1.3	0.9	1.3	1.5	1.3	1.5	1.3	1.3	1.3	1.3
Total expenditure and net lending	33.1	31.2	28.3	27.5	26.6	27.2	26.1	27.4	25.1	25.2	25.1	24.1	23.0
Current expenditure	25.5	24.0	22.1	22.5	20.6	20.6	19.8	20.2	18.8	18.9	17.8	16.8	16.3
Wages and salaries	12.6	12.4	12.0	12.2	11.2	10.5	10.4	10.3	9.6	9.9	9.5	8.8	8.6
Goods and services	4.2	4.3	2.9	2.8	2.8	2.7	2.7	2.7	2.7	2.6	2.4	2.3	2.3
Interest payments	3.0	3.3	4.1	3.6	3.6	3.8	3.7	3.7	3.5	3.5	3.2	3.0	2.9
Transfers and subsidies	5.7	4.0	3.1	3.8	3.1	3.6	3.0	3.5	2.9	3.0	2.8	2.7	2.5
o/w: oil subsidies	1.4	0.5	0.4	0.6	0.3	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	7.5	6.9	4.9	2.2	5.8	5.0	6.4	7.2	6.3	6.2	7.3	7.3	6.7
Domestically financed	4.2	2.8	1.9	1.1	1.9	3.3	1.9	2.8	1.9	3.0	2.9	2.5	3.4
Foreign financed	3.2	4.1	3.0	1.1	3.9	1.7	4.5	4.4	4.4	3.2	4.3	4.8	3.3
Net lending	-0.2	0.4	0.6	1.3	0.0	1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Road Fund (FER) and special funds	0.3	0.3	0.2	0.3	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Special accounts 2/	0.0	-0.5	0.5	1.1	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (commitment basis)	-1.4	-7.1	-3.2	-3.8	-1.7	0.8	-0.6	0.8	0.2	2.5	2.5	3.0	3.5
Adjustment to cash basis 3/	-4.6	-2.3	-2.0	-1.2	-1.5	-1.2	0.0	0.0	0.0	0.0	0.0	0.0	0.2
Overall balance (cash basis)	-6.0	-9.3	-5.2	-4.9	-3.3	-0.4	-0.6	0.8	0.2	2.6	2.6	3.0	3.7
Total financing	6.0	9.3	5.2	4.9	3.3	0.4	0.6	-0.8	-0.2	-2.6	-2.6	-3.0	-3.7
Foreign borrowing (net)	3.5	2.4	-2.8	-2.6	1.3	-2.5	1.7	1.7	1.4	0.3	1.8	2.2	0.5
Drawings	3.2	4.1	3.0	1.1	3.9	1.7	4.5	4.4	4.4	3.2	4.3	4.8	3.3
Amortization	-5.1	-4.1	-5.4	-5.1	-2.6	-2.9	-2.8	-2.8	-3.0	-2.9	-2.6	-6.2	-6.0
Arrears (reduction = -)	0.1	2.5	-2.4	-0.4	0.0	-1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Rollover (Eurobonds)	5.2	0.0	2.0	1.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.5	3.1
Domestic borrowing	3.7	7.1	-2.0	-2.5	-4.4	-3.7	-5.1	-6.6	-2.0	-3.7	-4.3	-5.2	-4.2
Bank financing (net)	5.2	8.7	1.1	-1.7	-0.3	0.7	-2.7	-1.2	-0.4	-1.7	-3.8	-5.4	-4.7
Nonbank financing (net) 4/	-1.4	-1.6	-3.1	-0.8	-4.1	-4.5	-2.3	-5.5	-1.6	-2.0	-0.6	0.3	0.5
Financing gap (+=deficit / - surplus)	-1.2	-0.2	10.0	10.0	6.3	6.6	4.0	4.2	0.4	0.8	0.0	0.0	0.0
Exceptional financing (excluding IMF)			8.1	8.1	4.6	4.8	2.3	2.5	0.0	0.4	0.0	0.0	0.0
Residual gap			1.9	1.9	1.8	1.8	1.6	1.7	0.4	0.4	0.0	0.0	0.0
IMF-EFF			1.9	1.9	1.8	1.8	1.6	1.7	0.4	0.4	0.0	0.0	0.0
	(Billion of CFA francs, unless otherwise indicated)												
Total revenue and grants	1,797	1,424	1,533	1,423	1,592	1,760	1,748	1,871	1,861	1,989	2,129	2,196	2,290
Total expenditure and net lending	1,879	1,840	1,731	1,649	1,703	1,709	1,791	1,818	1,850	1,808	1,933	1,952	1,986
Overall balance	-82	-416	-197	-226	-111	50	-43	53	11	181	196	244	304
Memorandum items:													
Gross government deposits in BEAC (percent of non-oil GDP)	6.1	2.4	2.5	3.2	3.1	3.4	4.8	4.4	4.8	5.7	7.8	10.0	12.9
o/w Fund for Future Generations or Stabilization Fund	1.7	1.6	1.6	0.5	2.3	0.6	3.1	1.7	4.1	3.1	5.3	7.7	10.5
Overall balance (percent of GDP)	-1.0	-5.0	-2.3	-2.6	-1.2	0.5	-0.5	0.5	0.1	1.8	1.8	2.2	2.6
Non-oil primary balance excluding capital transfers	-513	-646	-559	-582	-388	-446	-295	-422	-231	-240	-194	-118	-39
As percent of non-oil GDP	-9.0	-11.0	-9.2	-9.7	-6.1	-7.1	-4.3	-6.4	-3.1	-3.3	-2.5	-1.5	-0.5
Oil revenues (percent of oil GDP)	21.3	17.4	23.3	21.5	20.0	23.1	19.8	22.7	19.5	22.0	21.1	20.3	19.7
Public debt (percent of GDP)	44.7	64.2	59.0	62.7	59.1	56.0	57.4	54.4	53.0	50.3	47.5	45.5	42.5
External debt (percent of GDP)	33.9	37.4	36.6	38.7	41.0	38.0	42.7	40.3	41.0	39.0	38.3	38.3	36.7
Domestic debt (percent of GDP)	10.8	26.8	22.4	24.0	18.1	18.0	14.8	14.1	12.0	11.3	9.3	7.2	5.9
o/w Statutory advances from BEAC	5.3	5.4	5.2	5.2	5.1	4.8	4.8	4.6	4.5	4.4	4.2	3.6	3.0
Stock of arrears 5/	...	13.5	6.6	9.5	2.8	4.2	1.1	1.4	0.0	0.0	0.0	0.0	0.0
External	...	2.7	0.0	1.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	...	10.9	6.6	7.6	2.8	4.2	1.1	1.4	0.0	0.0	0.0	0.0	0.0
VAT Reimbursement	...	5.9	5.0	5.4	2.8	4.2	1.1	1.4	0.0	0.0	0.0	0.0	0.0
Exceptional float 6/	...	4.2	1.6	1.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt service	...	0.7	0.0	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-oil GDP at market prices	5,676	5,885	6,108	6,007	6,406	6,289	6,852	6,625	7,376	7,186	7,698	8,106	8,634

Sources: Gabonese authorities and IMF staff estimates and projections.

1/ Staff report on the First Review on the Extended Arrangement Under the Extended Fund Facility (December 4, 2017; IMF Country Report No. 17/408).

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

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

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

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

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

Table 4a. Gabon: Financing of the Fiscal Deficit, 2017–23

(Billions of CFA francs)

	2017		2018		2019		2020		2021	2022	2023
	Prog. 1/	Est.	Prog. 1/	Proj.	Prog. 1/	Proj.	Prog. 1/	Proj.		Proj.	
A. Overall fiscal deficit (cash basis)	316.6	296.6	208.6	24.7	40.6	-51.3	-14.6	-184.0	-197.4	-241.9	-319.3
B. Other financing needs	751.6	627.9	670.1	734.1	681.5	813.6	548.6	697.5	695.7	1070.2	1000.4
Amortization (including arrears)	665.0	569.2	397.1	519.4	385.6	430.9	434.1	446.1	421.7	706.8	660.7
External	478.9	331.8	163.8	263.1	194.6	184.4	220.5	207.1	197.3	500.8	514.7
Amortization due	332.3	306.3	163.8	183.1	194.6	184.4	220.5	207.1	197.3	500.8	514.7
Arrears on amortization	146.6	25.5	0.0	80.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	186.1	237.4	233.3	256.3	190.9	246.5	213.6	239.0	224.4	206.1	146.0
T-bills redemption	93.5	93.2	135.5	161.4	119.4	169.9	142.1	171.4	174.3	206.1	146.0
Moratorium debt	83.5	134.5	92.0	84.9	69.0	74.2	69.0	65.1	50.2	0.0	0.0
Other	9.1	9.7	5.8	10.0	2.5	2.5	2.5	2.5	0.0	0.0	0.0
BEAC	0.0	82.8	79.1	30.8	194.0	123.2	37.6	159.0	273.9	363.3	341.3
Repayment of statutory advances	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	50.0	50.0
Other deposits	0.0	82.8	79.1	30.8	194.0	123.2	37.6	159.0	273.9	313.3	291.3
Repayment of VAT Arrears	42.0	20.9	126.9	59.9	101.9	174.5	76.9	92.4	0.0	0.0	0.0
Other (includes restructuring costs)	2.7	7.8	67.0	84.0	0.0	85.0	0.0	0.0	0.0	0.0	0.0
Arrears on domestic amortization (reduction)	41.9	2.0	0.0	39.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
C=A+B Total financing needs	1068.2	924.5	878.8	758.8	722.1	762.3	534.1	513.6	498.3	828.3	681.0
D. Identified sources of financing	457.8	315.0	474.6	344.7	450.0	483.1	506.1	456.2	498.3	828.3	681.0
External	305.8	177.8	250.0	108.6	309.6	294.0	325.0	232.1	334.3	676.5	558.4
Project financing (ext.)	186.0	65.3	250.0	108.6	309.6	294.0	325.0	232.1	334.3	389.0	287.2
Eurobond rollover (ext.)	119.8	112.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	287.5	271.2
Domestic	152.0	137.2	224.6	236.1	140.4	189.1	181.0	224.1	164.0	151.8	122.6
T-bill issuance	98.0	112.9	114.0	150.0	79.0	120.0	100.0	120.0	90.0	95.0	80.0
Privatization receipts	0.0	0.0	50.0	39.0	0.0	25.0	20.0	60.0	25.0	20.0	0.0
Recovery of domestic tax arrears	54.0	24.3	60.6	47.1	61.4	44.1	61.0	44.1	49.0	36.8	42.6
E=C-D Financing gap	610.4	609.5	404.1	414.2	272.1	279.2	28.0	57.3	0.0	0.0	0.0
F. Exceptional external financing	493.5	487.8	291.9	302.2	160.2	166.9	0.0	29.3	0.0	0.0	0.0
Multilateral	444.3	438.6	242.7	253.0	111.0	117.7	0.0	29.3	0.0	0.0	0.0
African Development Bank	328.0	328.0	131.2	131.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
World Bank	116.3	110.7	111.5	121.8	111.0	117.7	0.0	29.3	0.0	0.0	0.0
Bilateral	49.2	49.2	49.2	49.2	49.2	49.2	0.0	0.0	0.0	0.0	0.0
France	49.2	49.2	49.2	49.2	49.2	49.2	0.0	0.0	0.0	0.0	0.0
E-F Residual financing needs	116.9	121.7	112.2	112.0	111.9	112.4	28.0	28.0	0.0	0.0	0.0
IMF-EFF	117.0	113.9	112.2	112.0	111.9	112.4	28.0	28.0	0.0	0.0	0.0
Remaining gap	0.0	7.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

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

1/ Staff report on the First Review on the Extended Arrangement Under the Extended Fund Facility (December 4, 2017; IMF Country Report No. 17/408).

Table 4b. Gabon: Financing of the Fiscal Deficit, 2017–23

(Percentage of GDP)

	2017		2018		2019		2020		2021	2022	2023
	Prog. 1/	Est.	Prog. 1/	Proj.	Prog. 1/	Proj.	Prog. 1/	Proj.		Proj.	
A. Overall fiscal deficit (cash basis)	3.6	3.4	2.3	0.3	0.4	-0.5	-0.1	-1.8	-1.8	-2.2	-2.7
B. Other financing needs	8.6	7.2	7.5	7.7	7.3	8.3	5.5	6.8	6.5	9.7	8.6
Amortization (including arrears)	7.6	6.6	4.4	5.5	4.1	4.4	4.4	4.4	3.9	6.4	5.7
External	5.5	3.8	1.8	2.8	2.1	1.9	2.2	2.0	1.8	4.5	4.4
Amortization due	3.8	3.5	1.8	1.9	2.1	1.9	2.2	2.0	1.8	4.5	4.4
Arrears on amortization	1.7	0.3	0.0	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	2.1	2.7	2.6	2.7	2.0	2.5	2.1	2.3	2.1	1.9	1.3
T-bills redemption	1.1	1.1	1.5	1.7	1.3	1.7	1.4	1.7	1.6	1.9	1.3
Moratorium debt	1.0	1.6	1.0	0.9	0.7	0.8	0.7	0.6	0.5	0.0	0.0
Other	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
BEAC	0.0	1.0	0.9	0.3	2.1	1.3	0.4	1.6	2.6	3.3	2.9
Repayment of statutory advances	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5	0.4
Other deposits	0.0	1.0	0.9	0.3	2.1	1.3	0.4	1.6	2.6	2.8	2.5
Repayment of VAT Arrears	0.5	0.2	1.4	0.6	1.1	1.8	0.8	0.9	0.0	0.0	0.0
Other (includes restructuring costs)	0.0	0.1	0.7	0.9	0.0	0.9	0.0	0.0	0.0	0.0	0.0
Arrears on domestic amortization (reduction)	0.5	0.0	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
C=A+B Total financing needs	12.2	10.7	9.8	8.0	7.7	7.8	5.4	5.0	4.7	7.5	5.9
D. Identified sources of financing	5.2	3.6	5.3	3.6	4.8	4.9	5.1	4.5	4.7	7.5	5.9
External	3.5	2.0	2.8	1.1	3.3	3.0	3.3	2.3	3.1	6.1	4.8
Project financing (ext.)	2.1	0.8	2.8	1.1	3.3	3.0	3.3	2.3	3.1	3.5	2.5
Eurobond rollover (ext.)	1.4	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.6	2.3
Domestic	1.7	1.6	2.5	2.5	1.5	1.9	1.8	2.2	1.5	1.4	1.1
T-bill issuance	1.1	1.3	1.3	1.6	0.8	1.2	1.0	1.2	0.8	0.9	0.7
Privatization receipts	0.0	0.0	0.6	0.4	0.0	0.3	0.2	0.6	0.2	0.2	0.0
Recovery of domestic tax arrears	0.6	0.3	0.7	0.5	0.7	0.4	0.6	0.4	0.5	0.3	0.4
E=C-D Financing gap	7.0	7.0	4.5	4.4	2.9	2.8	0.3	0.6	0.0	0.0	0.0
F. Exceptional external financing	5.7	5.6	3.3	3.2	1.7	1.7	0.0	0.3	0.0	0.0	0.0
Multilateral	5.1	5.1	2.7	2.7	1.2	1.2	0.0	0.3	0.0	0.0	0.0
African Development Bank	3.8	3.8	1.5	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
World Bank	1.3	1.3	1.2	1.3	1.2	1.2	0.0	0.3	0.0	0.0	0.0
Bilateral	0.6	0.6	0.6	0.5	0.5	0.5	0.0	0.0	0.0	0.0	0.0
France	0.6	0.6	0.6	0.5	0.5	0.5	0.0	0.0	0.0	0.0	0.0
E-F Residual financing needs	1.3	1.4	1.3	1.2	1.2	1.1	0.3	0.3	0.0	0.0	0.0
IMF-EFF	1.3	1.3	1.3	1.2	1.2	1.1	0.3	0.3	0.0	0.0	0.0

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

1/ Staff report on the First Review on the Extended Arrangement Under the Extended Fund Facility (December 4, 2017; IMF Country Report No. 17/408).

Table 5. Gabon: Monetary Survey, 2015–23

	2015	2016	2017				2018								2019	2020	2021	2022	2023
			Q3		Q4		Q1		Q2		Q3		Q4						
			Prog. 1/	Act.	Prog. 1/	Act.	Prog. 1/	Prel.	Prog. 1/	Proj.	Prog. 1/	Proj.	Prog. 1/	Proj.			Proj.		
	(Billion of CFA francs, unless otherwise indicated)																		
Net foreign assets	1107	445	408	398	484	549	490	474	515	384	520	387	559	639	817	1065	1379	1752	2174
Bank of Central African States (BEAC)	1001	358	263	253	361	307	367	232	393	142	398	145	436	397	575	823	1137	1510	1932
Foreign assets	1131	487	443	443	607	537	613	461	696	372	701	430	794	739	1029	1305	1614	1969	2349
Foreign liabilities	-130	-129	-180	-176	-246	-230	-246	-229	-303	-230	-303	-286	-358	-342	-454	-482	-477	-459	-417
o/w: IMF credit	0	0	56	56	115	111	115	111	172	111	172	167	227	223	336	364	359	340	299
Deposit money banks (DMBs)	118	88	145	145	123	242	123	242	123	242	123	242	123	242	242	242	242	242	242
Foreign assets	287	318	340	340	318	367	318	367	318	367	318	367	318	367	367	367	367	367	367
Foreign liabilities	-170	-229	-195	-195	-195	-125	-195	-125	-195	-125	-195	-125	-195	-125	-125	-125	-125	-125	-125
Net domestic assets	1141	1705	1418	1415	1618	1420	1647	1494	1810	1614	1777	1729	1744	1511	1621	1624	1467	1164	917
Domestic credit	1322	1813	1577	1590	1777	1668	1806	1768	1969	1854	1936	1969	1903	1759	1869	1871	1715	1412	1165
Claims on general government (net)	73	598	539	471	763	533	805	727	822	844	866	1019	856	760	795	701	404	-56	-503
Claims on central government (net)	143	654	625	558	819	599	861	796	878	913	922	1088	912	826	861	766	470	10	-437
BEAC, Claims on central government (net)	-79	221	212	274	336	249	334	452	365	494	365	550	369	330	320	189	-90	-472	-855
BEAC, Claims on central government	453	453	509	509	568	564	568	564	624	564	624	620	680	676	789	817	812	743	652
Statutory advances	453	453	453	453	453	453	453	453	453	453	453	453	453	453	453	453	453	403	353
Use of IMF credit	0	0	56	56	115	111	115	111	172	111	172	167	227	223	336	364	359	340	299
Other	0.4	0.2	0.4	0.4	0.2	0.5	0.2	0.5	0	0.5	0.2	0.5	0.2	0.5	0.5	0.5	0.5	0.5	0.5
Liabilities to central government	-532	-232	-297	-235	-232	-315	-234	-111	-259	-70	-259	-70	-311	-346	-469	-628	-902	-1215	-1507
Fund for Future Generations/Sovereign Wealth Fund	-147	-150	-122	-122	-150	-47	-152	-40	-178	-10	-178	-10	-229	-61	-184	-343	-617	-930	-1221
Other CG deposits and vault cash	-386	-82	-174	-125	-82	-268	-82	-71	-82	-60	-82	-60	-82	-285	-285	-285	-285	-285	-285
Deposit money banks (net)	223	433	413	366	483	415	527	413	513	419	557	538	543	496	541	578	560	482	418
Claims on central government	412	622	594	543	672	529	715	515	702	533	745	652	731	609	655	691	673	595	529
Liabilities to central government	-189	-189	-180	-176	-189	-113	-189	-102	-189	-113	-189	-113	-189	-113	-113	-113	-113	-113	-112
Claims on public agencies (net)	-71	-56	-87	-87	-56	-66	-56	-69	-56	-69	-56	-69	-56	-66	-66	-66	-66	-66	-66
Claims on nongovernment (net)	1182	1114	1038	1032	1014	1069	1001	973	1147	1010	1071	950	1047	998	1074	1171	1311	1468	1668
Other items (net)	-181	-108	-159	-175	-159	-248	-159	-274	-159	-241	-159	-241	-159	-248	-248	-248	-248	-248	-248
Broad money (M2)	2162	2049	1825	1813	2102	1969	2137	1968	2326	1998	2298	2116	2302	2150	2438	2688	2847	2916	3091
Currency	370	352	320	302	372	305	393	328	435	305	430	323	415	328	372	410	434	445	471
Deposits	1792	1697	1506	1504	1730	1640	1745	1664	1891	1694	1868	1793	1887	1822	2066	2278	2412	2471	2619
Memorandum items:	(Annual percentage change, unless otherwise indicated)																		
Broad money (M2)	-1.4	-5.2	-11.4	-12.0	2.6	-3.9	5.4	-2.9	24.2	6.7	25.9	16.7	9.5	9.2	13.4	10.3	5.9	2.4	6.0
Reserve money	6.9	-28.4	-4.4	-4.4	13.0	-10.3	28.4	28.4	7.3	7.3	6.3	6.3	14.0	28.0	21.3	12.2	3.5	-0.6	3.7
Credit to the private sector	-9.8	-5.6	-8.4	-8.9	-9.0	-4.1	-8.8	-11.4	6.3	-6.3	3.2	-7.9	3.2	-6.9	7.6	9.0	12.1	12.2	13.8
Credit to the private sector (in percent of non-oil GDP)	20.0	18.2	...	...	15.9	17.3	...	...	...	...	...	...	15.7	15.4	15.7	15.8	16.6	17.6	18.8
Broad money (in percent of overall GDP)	25.4	24.7	...	...	24.1	22.7	...	...	...	...	...	...	25.8	22.7	24.9	26.3	26.6	26.3	26.3
Velocity (Non-oil GDP/average M2)	2.6	2.8	3.2	3.2	3.2	3.2	3.2	3.3	2.9	3.2	2.8	3.1	2.8	3.0	2.9	2.8	2.8	2.8	2.7

Sources: Gabonese authorities and IMF staff estimates and projections.

1/ Staff report on the First Review on the Extended Arrangement Under the Extended Fund Facility (December 4, 2017; IMF Country Report No. 17/408).

Table 6. Gabon: Financial Soundness Indicators for the Banking Sector, 2011–17

(Percent)

	2011	2012	2013	2014	2015	2016				2017			
						Q1	Q2	Q3	Q4	Q1	Q2	Q3	Nov.
Capital													
Regulatory capital to risk-weighted assets[1, 2]	12.9	10.9	12.3	9.4	8.3	8.8	10.0	9.9	8.1	8.2	9.4	13.8	9.5
Capital to assets	9.2	8.3	9.2	9.1	9.3	9.9	9.5	9.7	9.4	9.7	9.6	12.4	9.1
Large exposures to capital	...	...	...	...	220.1	208.0	165.4	166.1	189.4	203.4	518.9	369.6	530.2
Asset quality													
Non-performing loans to total gross loans	2.8	2.5	2.7	4.1	5.3	5.1	7.2	6.2	6.6	7.0	7.9	8.0	10.0
Non-performing loans net of provisions to capital	-5.0	-2.6	-0.5	0.3	6.5	3.0	15.3	8.6	9.0	9.7	13.1	10.1	10.0
Earnings and profitability													
Return on equity	24.8	23.3	19.6	21.5	13.5	...	4.1	...	36.8	...	134.6	...	...
Return on assets[3]	2.7	2.3	1.9	2.1	1.3	...	0.4	...	3.4	...	13.0	...	...
Liquidity													
Liquid assets to total assets	20.9	22.7	20.0	19.0	24.4	23.7	25.7	23.2	25.0	23.6	20.8	23.0	23.0
Ratio of liquid assets to short-term liabilities	129.5	143.2	125.5	112.9	148.3	139.9	155.1	135.7	134.0	130.1	119.6	145.2	148.0
Total deposits to total (noninterbank) loans	122.6	115.9	108.6	105.5	113.8	115.5	110.6	108.9	108.4	108.8	102.5	103.3	113.4

Source: Banking Commission of Central Africa (COBAC).

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

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

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

Source : Commission bancaire de l'Afrique centrale (COBAC).

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

			Projection												
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Fund obligations based on existing credit (in millions of SDRs)															
Principal	0.0	0.0	0.0	0.0	0.0	6.0	23.8	23.8	23.8	23.8	23.8	17.9	0.0	0.0	0.0
Charges and interest	0.0	0.0	1.6	3.1	3.1	3.1	2.9	2.5	2.0	1.5	1.1	0.6	0.3	0.3	0.3
Fund obligations based on existing and prospective credit (in millions of SDRs)															
Principal	0.0	0.0	0.0	0.0	0.0	6.0	23.8	53.6	74.4	77.4	77.4	71.5	53.6	23.8	3.0
Charges and interest	0.0	0.4	2.6	7.2	10.0	10.7	10.3	9.1	7.6	6.1	4.5	3.0	1.6	0.7	0.3
Total obligations based on existing and prospective credit															
In millions of SDRs	0.0	0.4	2.6	7.2	10.0	16.7	34.2	62.7	82.0	83.5	81.9	74.4	55.2	24.6	3.3
In millions of US$	0.0	0.5	3.8	10.3	14.5	24.1	49.5	91.2	119.3	121.4	119.2	108.3	80.4	35.7	4.8
In percent of exports of goods and services	0.0	0.0	0.0	0.1	0.2	0.3	0.5	1.0	1.2	1.2	1.1	1.0	0.7	0.3	0.0
In percent of debt service 1/	0.0	0.1	0.5	1.7	2.1	3.5	6.3	10.8	13.5	12.9	12.7	11.5	8.7	4.1	0.6
In percent of GDP	0.0	0.0	0.0	0.1	0.1	0.1	0.2	0.4	0.5	0.5	0.5	0.4	0.3	0.1	0.0
In percent of Gross International Reserves	0.0	0.1	0.5	1.0	1.0	1.1	1.8	2.5	2.9	2.7	2.4	2.0	1.4	0.6	0.1
In percent of quota	0.0	0.2	1.2	3.3	4.6	7.7	15.8	29.0	38.0	38.6	37.9	34.5	25.6	11.4	1.5
Outstanding Fund credit															
In millions of SDRs	0.0	285.7	285.7	428.6	464.4	458.5	434.6	381.1	306.7	229.3	151.9	80.4	26.8	3.0	0.0
In millions of US$	0.0	396.1	409.5	613.9	668.7	662.0	630.5	554.4	446.1	333.5	220.9	117.0	39.0	4.4	0.0
In percent of exports of goods and services	0.0	6.4	5.2	7.5	7.9	7.5	6.9	5.8	4.5	3.2	2.1	1.1	0.3	0.0	0.0
In percent of debt service	0.0	64.0	52.8	98.7	97.1	96.7	80.0	65.9	50.4	35.4	23.5	12.5	4.2	0.5	0.0
In percent of GDP	0.0	2.7	2.4	3.4	3.5	3.3	3.1	2.6	2.0	1.4	0.9	0.4	0.1	0.0	0.0
In percent of Gross International Reserves	0.0	74.9	56.4	58.6	44.1	31.5	22.4	15.4	11.0	7.4	4.5	2.2	0.7	0.1	0.0
In percent of quota	0.0	132.3	132.3	198.4	215.0	212.2	201.2	176.4	142.0	106.1	70.3	37.2	12.4	1.4	0.0
Net use of Fund credit (in millions of SDRs)	0.0	142.9	142.9	142.9	35.8	-6.0	-23.8	-53.6	-74.4	-77.4	-77.4	-71.5	-53.6	-23.8	-3.0
Disbursements	0.0	142.9	142.9	142.9	35.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments	0.0	0.0	0.0	0.0	0.0	6.0	23.8	53.6	74.4	77.4	77.4	71.5	53.6	23.8	3.0
Memorandum items:															
Exports of goods and services (in millions of US$)	5,069	6,155	7,836	8,143	8,511	8,820	9,167	9,538	9,946	10,374	10,684	10,978	11,354	11,767	12,227
Debt service (in millions of US$)	604	619	776	622	689	685	788	842	885	942	939	938	928	867	852
Nominal GDP (in millions of US$)	14,020	14,930	17,327	17,854	18,850	19,816	20,640	21,728	22,626	24,039	25,408	26,864	28,414	29,900	31,496
Gross Official Reserves Imputed to Gabon (in millions of US$)	604	529	726	1,047	1,515	2,103	2,811	3,606	4,051	4,500	4,948	5,389	5,803	6,174	6,514
Quota (millions of SDRs)	216	216	216	216	216	216	216	216	216	216	216	216	216	216	216

Source: IMF staff estimates and projections.

1/ Total debt service includes IMF repayments.

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

Date of availability	Condition for disbursement	Amount (millions of SDRs)	Amount (millions of US$)	Percentage of Quota 1/
June 19, 2017	Approval of the extended arrangement under the EFF.	71.430	96.649	33.069
December 1, 2017	Observance of PCs for end-June 2017, continuous PCs and completion of the first review.	71.430	98.915	33.069
June 1, 2018	Observance of PCs for end-December 2017, continuous PCs and completion of second review. 2/	71.430	100.618	33.069
December 1, 2018	Observance of PCs for end-June 2018, continuous PCs and completion of third review.	71.430	100.618	33.069
June 1, 2019	Observance of PCs for end-December 2018, continuous PCs and completion of fourth review.	71.430	100.792	33.069
December 1, 2019	Observance of PCs for end-June 2019, continuous PCs and completion of fifth review.	71.430	100.792	33.069
April 30, 2020	Observance of PCs for end-December 2019, continuous PCs and completion of sixth review.	35.820	50.569	16.583
	Total	464.400	648.954	215.000

Source: IMF staff projections.

1/ Gabon's quota is SDR 216.0 million.

2/ Performance under the second review is assessed on the basis of performance criteria and targets for the most recent test date, which is end-June 2018.

Annex I. Debt Sustainability Analysis (DSA)

Gabon's public debt is expected to remain sustainable despite lower economic growth in the short term. Under the baseline scenario, the public debt-to-GDP ratio is forecast to decline to about 43 percent by 2023 from the current level of 63 percent. Stress tests indicate that public debt remains sustainable against most standard shock scenarios. The main risks arise from the large share of debt held by non-residents and foreign currency debt—70 percent and 62 percent of total debt, respectively. There is also a risk that growth may be lower than expected and that fiscal consolidation may be insufficient. The implementation of a decisive fiscal adjustment program, coupled with the envisaged agri-industry investments and appreciation of the CFA Franc against the U.S. dollar, would ensure that debt declines over the life of the program to 55 percent of GDP. Clearance of external arrears is crucial for continued market access.

A. Public Debt Sustainability

1. **The rapid build-up of debt over the last decade is mostly due to large investment expenditure.** Three major events have led to a rapid accumulation of debt from 19 percent of GDP in 2008 to 63 percent in 2017. First, there was large investment activity related to the government's strategic plan for economic diversification (PSGE), aimed at reducing Gabon's dependence on oil. Second, capital spending in the run-up to two soccer African Cup of Nations in 2012 and 2016. Third, government borrowing increased due to the recent oil price shock, which triggered a large decline in oil revenue and turned the GDP deflator negative—worsening the debt-to-GDP ratio.

2. **Overview of the public debt level and structure.** Gabon's public debt stood at [CFAF 5,552.8 billion (US$9.8 billion) as at end-2017, which include the incorporation of domestic arrears. The pace of debt accumulation has picked up in this decade as the government sought funds to finance the PSGE, and since 2015, to make up for lower revenues following the oil price shock. In 2013, the government placed a US$1.5 billion Eurobond. The increase in the debt ratio from 2014 to 2015 was largely due to the issuance of a US$500 million Eurobond in June, the Euro-CFAF depreciation, and the considerable decline in nominal GDP resulting from the collapse in oil prices. Gabon's public debt is mostly external and medium to long term. It is worth noting that while the

Table 1. Gabon: Public Debt Stock by Components, 2015-17
(CFAF billion)

	2015	2016	2017
External Debt	2,884.4	3,107.0	3,355.8
Bilateral	695.9	742.8	678.9
Multilateral	383.3	376.8	913.5
Commercial	496.6	641.4	566.5
Financial Markets	1,308.6	1,346.0	1,196.9
Domestic Debt	916.8	2,228.3	2,081.9
Banking	452.4	810.7	826.4
Non-Banking System	464.4	1,417.6	1,255.5
Total	3,801.2	5,335.3	5,437.6

Source: Gabonese authorities.

CEMAC regional group sets a public debt ceiling at 70 percent of GDP (deemed too high in recent CEMAC regional surveillance staff reports), Gabon sets a more conservative ceiling of 35 percent of GDP, which was exceeded in 2015.

3. Comparison with Previous Assessment. The baseline debt projection has declined relative to last year's DSA (2017 Gabon Program Request). Gross public debt is about 7.8 percentage points of GDP lower in 2018, compared with the original program, and 4 percentage points lower by end-2022. The main factors explaining the revised debt path include:

- **Lower overall fiscal deficits in the initial years.** The actual overall fiscal deficit in 2017 was 1.2 percentage points of GDP lower than in the original program. The pace of fiscal consolidation is about 1 percent of GDP higher than the fiscal effort planned at the time of the original program request about a year ago.

- **Appreciation of the exchange rate vis-à-vis the U.S. dollar.** While the previous DSA assumed a slight depreciation of the exchange rate, the current DSA assumes about 7.8 percent appreciation over the medium term, in line with WEO assumptions regarding the Euro/U.S. dollar exchange rate. Given that foreign currency debt constitutes more than 60 percent of the total external debt, the appreciated exchange rate reduces the debt denominated in local currency.

- **Conversely, lower growth projections increase the debt-to-GDP ratio.** The slightly lower growth outlook, reflecting lower-than-expected oil activity and fiscal consolidation, partially offset the decline in the debt-to-GDP ratio.

4. Baseline and Realism of Projections:

- **Debt levels.** As a result of the planned fiscal consolidation, gross debt levels are projected to decline from 63 percent of GDP in 2018 to about 43 percent of GDP by 2023. Staff projects that gross financing needs will be 4.3 percent of GDP in 2019, and will decline to an average rate of 3.3 percent of GDP over the projection period (2018-23).

- **Growth.** Gabon's debt dynamics are not highly sensitive to surprises in GDP growth, as indicated by the response to growth shocks under the DSA stress tests. The median forecast error for real GDP growth is moderate, compared with other countries. There is no evidence of systematic projection bias in the baseline assumption for growth that could undermine the DSA assessment. Current output growth projections at 2.0 for 2018 remains below official estimates.[1]

- **Fiscal adjustment.** In the baseline projection, the non-oil primary basic balance (adjusted for foreign-financed capital investment) improves throughout the projection period (2018–23). On the revenue side, the consolidation effort is driven by higher non-oil revenues that

[1] The authorities project growth for 2018 at 2.1 percent.

follow from the effects of the ongoing tax policy and administration reforms. Higher non-oil revenues more than compensate for the fall in oil revenues related to lower international prices and lower domestic production of crude oil. On the spending side, projections assume compliance with the original program objectives. Considering the distribution of fiscal adjustment episodes provided in the DSA template, and pre-2009 Gabon evidence, the projected 3-year adjustment seems feasible.

5. Shocks and Stress Tests:

- **Primary balance shock.** A deterioration of 2.4 percentage points of GDP in the primary balance in 2019 increases public debt to 47 percent of GDP by the end of the projection period (2023). The gross financing needs also increase slightly. Effective interest rates on public debt do not deviate from the baseline.

- **Growth shock.** Real output growth rates are lowered by one standard deviation for 2 consecutive years starting in 2019. The decline in growth leads to a deterioration of the primary balance, compared with the baseline in 2019-20. Accordingly, the debt-to-GDP ratio increases to about 57 percent during the growth shock, and to 49 percent by the end-2023. Gross financing needs decline to 1.2 percent of GDP in 2021, before increasing to about 4.6 percent of GDP in 2022.

- **Interest rate shock.** Real interest rates are assumed to increase by 200 basis points starting in 2018. The government's interest bill increases gradually, reaching an implicit average interest rate of almost 14 percent by 2023, almost 10 percentage points higher than in the baseline. Similarly, the debt-to-GDP ratio and gross financing needs increase, reaching 54 and 7.7 percent of GDP respectively by 2023.

- **Real exchange rate shock.** A permanent real exchange rate depreciation of 18 percent increases debt by about 5 percentage points of GDP by 2023. Gross financing needs increase by about 1.0 percentage points of GDP by 2023, compared with the baseline.

- **Combined shock.** A combined shock incorporates the largest effect of individual shocks on all relevant variables (real GDP growth, inflation, primary balance, exchange rate and interest rate). In this case, debt would increase to around 79 percent of GDP. Gross financing needs increase to about 13 percent of GDP in 2023.

B. External Debt Sustainability Analysis

6. External debt level and profile. Gabon's gross external debt statistics cover the public sector's external liabilities to bilateral, multilateral and commercial creditors. Commercial claims are split between those guaranteed by other sovereigns (81 percent of total commercial) and those that are not guaranteed (19 percent of total commercial). At end-2017 gross external debt amounted to 40.6 percent of GDP, which includes external arrears worth 1.4 percent of GDP. Debt to financial markets accounted for 36 percent of total external debt, bilateral debt stood at 20 percent, debt to commercial creditors represented 17 percent, and multilateral institutions held the remaining 27 percent. In 2017, Gabon increased its exposure to multilaterals with budget/program support funds received from AfDB, WB, and the IMF. It also successfully managed to roll over the US$193million Eurobond amortization that fell due at year end with a mid-year issuance of the same. In their efforts to address the external arrears problem, the authorities cleared approximately 77 percent of the legacy arrears, but accumulated further arrears in 2017.

7. Baseline scenario. The baseline scenario is the same as in the public debt sustainability analysis, reflecting projections made in the macroeconomic framework described in Tables 1 to 4 of the policy note. With respect to external debt, the macroeconomic framework assumes that all international bonds falling due until 2023 are rolled over. Under this scenario, the external debt sustainability framework projects that the external debt-to-GDP ratio should exceed 42 percent in 2019, and then gradually decline to 38 percent by 2023.

8. Shocks (Figure 5). Alternative scenarios include a historical scenario in which the main variables are assumed to be the same as in the past ten years, and others that incorporate a 0.5 standard deviation applied to the real interest rate, growth rate, and the current account balance. The historical scenario, in which financial needs are much lower than in the baseline, lead to a reduction in external debt. But a shock to the current account balance or a currency depreciation cause a considerable debt escalation. Most notably, shocks to the non-interest rate current account lead to an increase in external debt to 67 percent in 2023, while a one-time 30 percent real exchange rate depreciation would lead to a debt spike of 60 percent in 2020.

9. High financing needs and intra-year cash flow management will be challenging. The failure to clear all external arrears, as per commitment, and fiscal slippages in 2017, pose a challenge in 2018, in terms of financing. The authorities continue to face liquidity pressure, with the ratio of debt service to reserves and exports, well above the rule-of-thumb benchmark of sufficient liquidity. A credible cash flow strategy is therefore crucial for the authorities to prevent further arrears accumulation over the next years. While the multilateral donors (AFD, AfDB and World Bank) have provided assurances for budget support disbursements totaling about US$560 million, substantial amount of disbursements will only be made available in the third and fourth quarter of the year. Thus, the government may face difficulties to stay current on its debt service and repay all legacy external arrears. In anticipation of this difficulty, the authorities have engaged in good-faith efforts with creditors with the intention to reprofile and amortize a portion of their legacy arrears. Creditor's willingness to agree to further extensions in their repayment schedules remains to be verified.

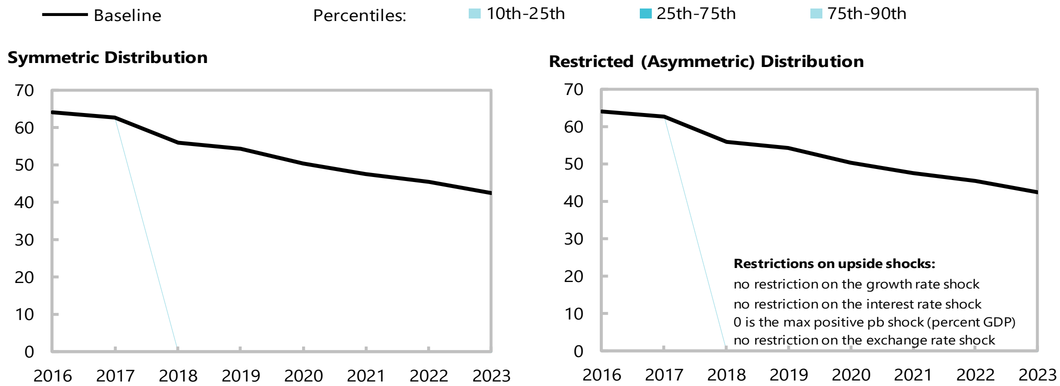
Figure 1. Gabon: Public DSA Risk Assessment

Heat Map

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

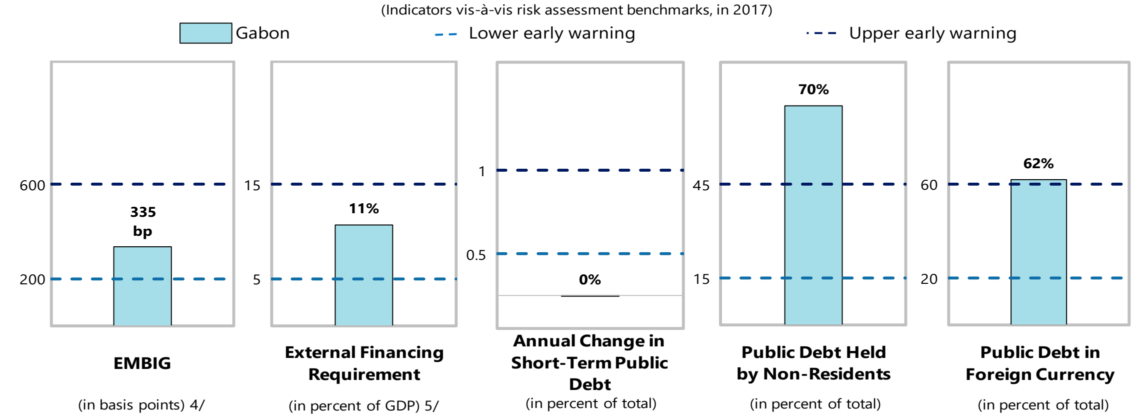
Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2017)



Source: IMF staff.

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

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

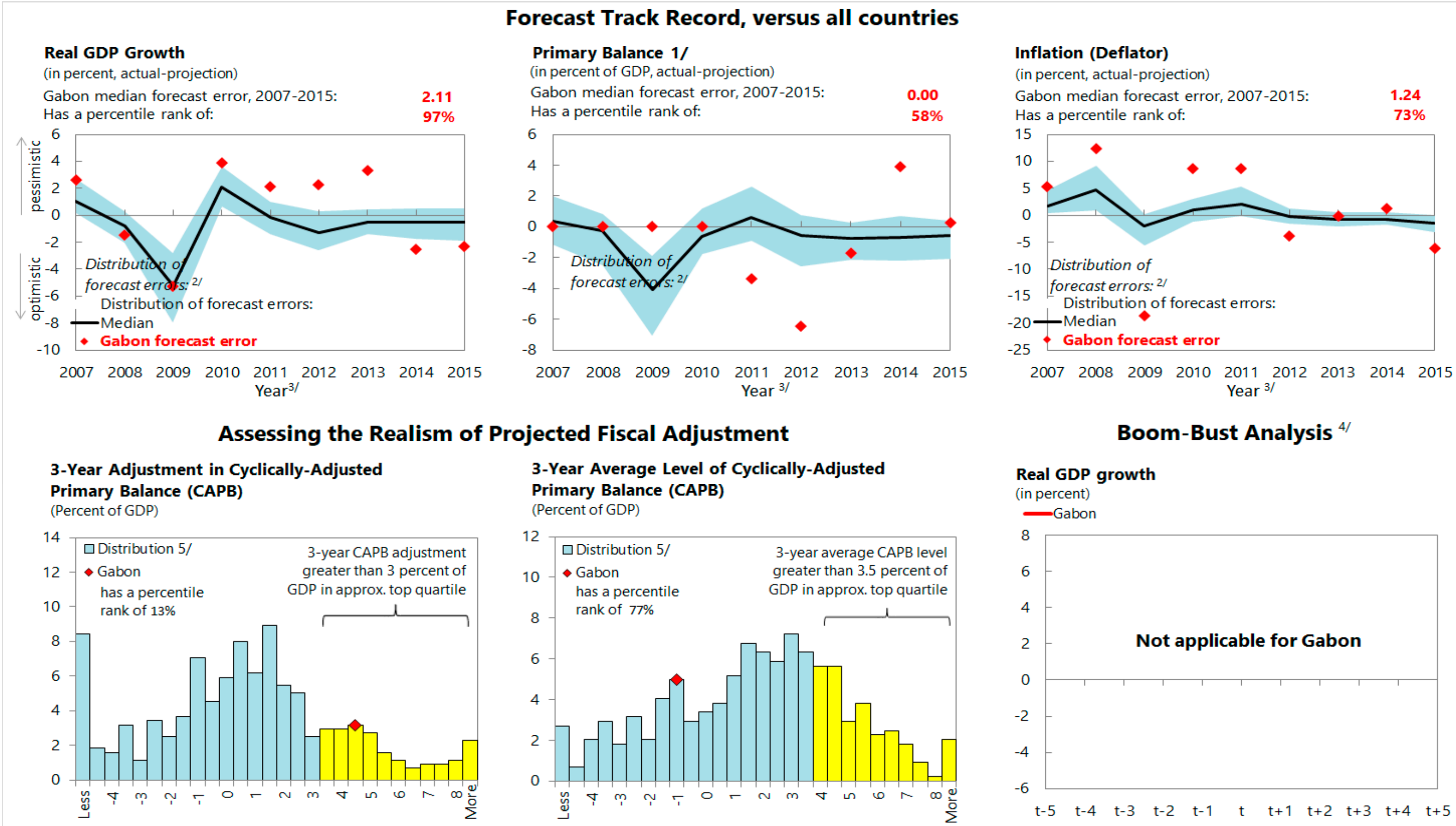
3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant,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

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

4/ Spread defined as an average over the last 3 months.

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

Figure 2. Gabon: Public DSA—Realism of Baseline Assumptions



Source : IMF Staff.

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

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

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

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

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

Figure 3. Gabon: Public Sector DSA – Baseline Scenario

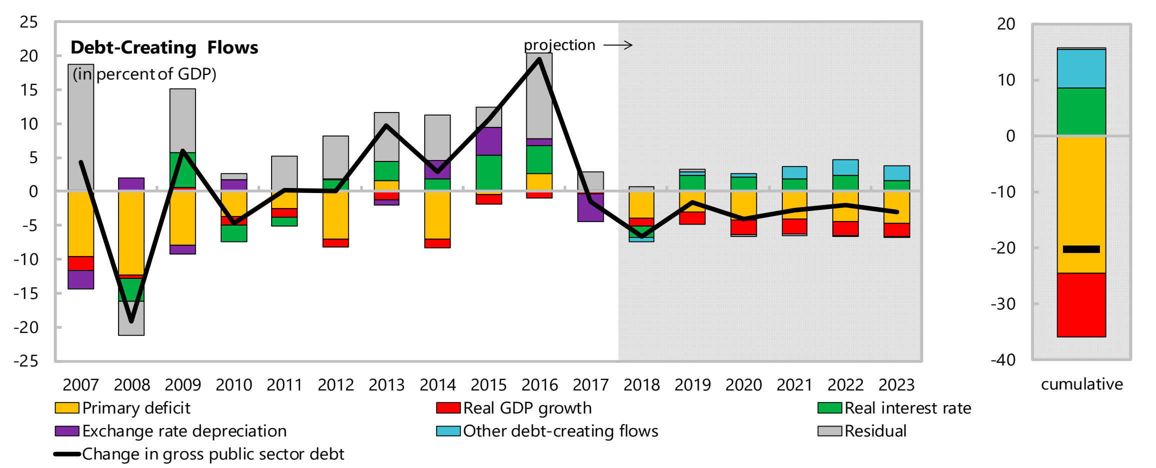
(Percent of GDP unless otherwise indicated)

Debt, Economic and Market Indicators [1/]

	Actual			Projections						As of June 08, 2018		
	2007-2015 [2/]	2016	2017	2018	2019	2020	2021	2022	2023			
Nominal gross public debt	28.8	64.2	62.7	56.0	54.4	50.3	47.5	45.6	42.5	Sovereign Spreads		
Of which: guarantees	0.1	0.5	0.4	0.4	0.4	0.4	0.3	0.3	0.3	EMBIG (bp) 3/		225
Public gross financing needs	1.1	10.1	5.5	5.5	4.4	2.3	1.1	3.8	2.8	5Y CDS (bp)		n.a.
Real GDP growth (in percent)	4.2	2.1	0.5	2.0	3.4	4.2	4.5	4.5	4.5	Ratings	Foreign	Local
Inflation (GDP deflator, in percent)	1.7	-4.3	3.9	7.1	0.0	0.2	0.2	-1.0	0.5	Moody's	Caa1	Caa1
Nominal GDP growth (in percent)	6.1	-2.3	4.4	9.3	3.4	4.4	4.7	3.5	5.0	S&Ps	B	B
Effective interest rate (in percent) [4/]	4.7	4.6	2.9	4.3	4.3	4.1	4.1	4.1	4.3	Fitch	B	B

Contribution to Changes in Public Debt

	Actual			Projections							
	2007-2015	2016	2017	2018	2019	2020	2021	2022	2023	cumulative	debt-stabilizing
Change in gross public sector debt	1.1	19.5	-1.5	-6.7	-1.6	-4.1	-2.8	-2.0	-3.0	-20.2	primary
Identified debt-creating flows	-4.7	6.9	-4.3	-7.4	-2.0	-3.8	-2.5	-1.8	-2.9	-20.5	balance [9/]
Primary deficit	-5.4	2.6	-0.1	-4.0	-3.1	-4.2	-4.1	-4.4	-4.7	-24.5	1.8
Primary (noninterest) revenue and grants	27.6	17.1	16.4	18.6	19.1	19.4	19.9	19.8	19.7	116.4	
Primary (noninterest) expenditure	22.2	19.7	16.3	14.6	16.0	15.2	15.8	15.4	14.9	92.0	
Automatic debt dynamics [5/]	0.7	4.3	-4.2	-2.8	0.5	-0.1	-0.3	0.3	-0.3	-2.8	
Interest rate/growth differential [6/]	0.1	3.1	-0.1	-2.8	0.5	-0.1	-0.3	0.3	-0.3	-2.8	
Of which: real interest rate	1.1	4.1	0.1	-1.7	2.3	2.1	1.9	2.4	1.6	8.6	
Of which: real GDP growth	-1.1	-1.0	-0.3	-1.2	-1.8	-2.2	-2.1	-2.1	-2.0	-11.4	
Exchange rate depreciation [7/]	0.7	1.1	-4.1	…	…	…	…	…	…	…	
Other identified debt-creating flows	0.0	0.0	0.0	-0.6	0.6	0.5	1.9	2.3	2.1	6.8	
Privatization receipts and overdue tax collect	0.0	0.0	0.0	-0.9	-0.7	-1.0	-0.7	-0.5	-0.4	-4.2	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Accumulation of deposits at banking system	0.0	0.0	0.0	0.3	1.3	1.6	2.6	2.8	2.5	11.0	
Residual, including asset changes [8/]	5.8	12.6	2.8	0.7	0.4	-0.3	-0.3	-0.2	-0.1	0.3	



Source: IMF staff.

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

2/ Based on available data.

3/ EMBIG.

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

5/ Derived as $[(r - \pi(1+g) - g + ae(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with r = interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; 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 $r - \pi (1+g)$ and the real growth contribution as -g.

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

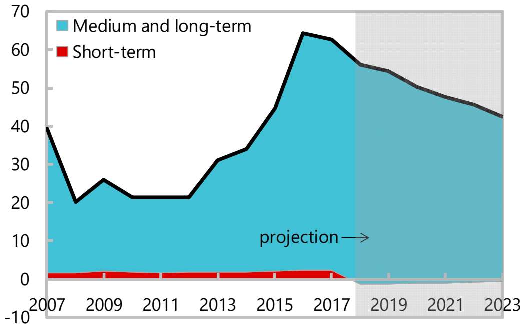
8/ Includes changes in the stock of guarantees, asset changes, and recognition of arrears. For projections, includes exchange rate changes during the projection period.

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

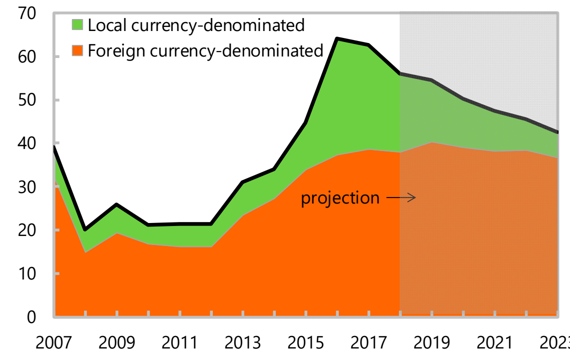
Figure 4. Gabon: Public DSA – Composition of Public Debt and Alternative Scenarios

Composition of Public Debt

By Maturity
(in percent of GDP)



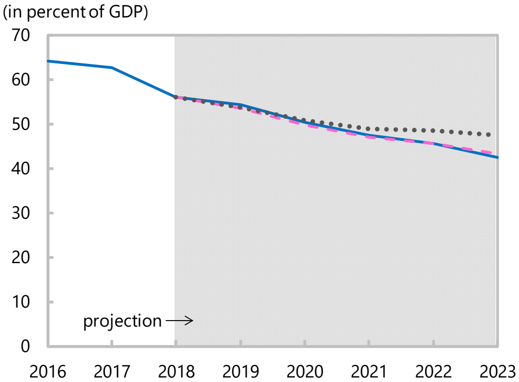
By Currency
(in percent of GDP)



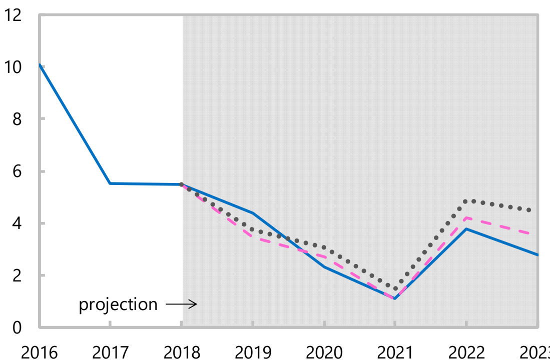
Alternative Scenarios

Baseline Historical Constant Primary Balance

Gross Nominal Public Debt
(in percent of GDP)



Public Gross Financing Needs
(in percent of GDP)



Underlying Assumptions
(in percent)

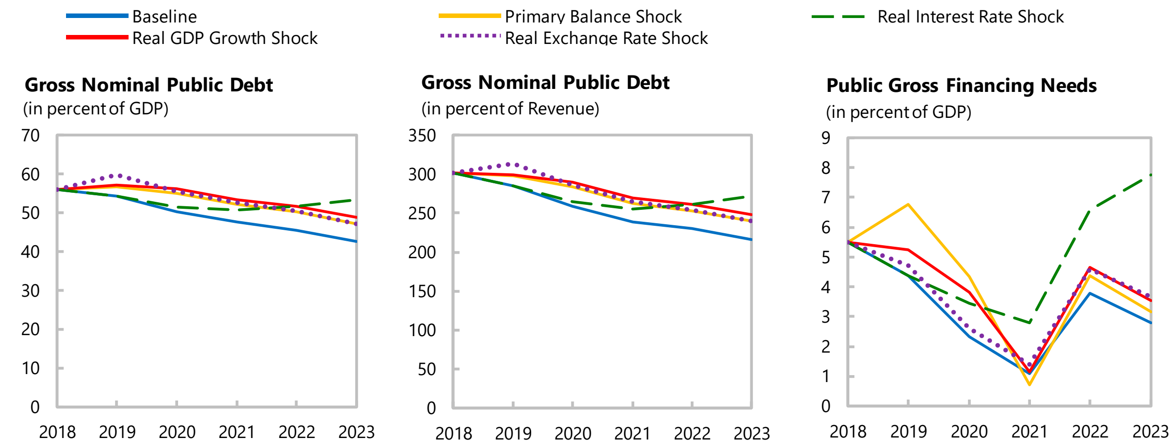
Baseline Scenario	2018	2019	2020	2021	2022	2023
Real GDP growth	2.0	3.4	4.2	4.5	4.5	4.5
Inflation	7.1	0.0	0.2	0.2	-1.0	0.5
Primary Balance	4.0	3.1	4.2	4.1	4.4	4.7
Effective interest rate	4.3	4.3	4.1	4.1	4.1	4.3
Constant Primary Balance Scenario						
Real GDP growth	2.0	3.4	4.2	4.5	4.5	4.5
Inflation	7.1	0.0	0.2	0.2	-1.0	0.5
Primary Balance	4.0	4.0	4.0	4.0	4.0	4.0
Effective interest rate	4.3	4.3	4.2	4.1	4.1	4.3

Historical Scenario	2018	2019	2020	2021	2022	2023
Real GDP growth	2.0	3.4	3.4	3.4	3.4	3.4
Inflation	7.1	0.0	0.2	0.2	-1.0	0.5
Primary Balance	4.0	3.7	3.7	3.7	3.7	3.7
Effective interest rate	4.3	4.3	4.3	4.3	4.5	5.0

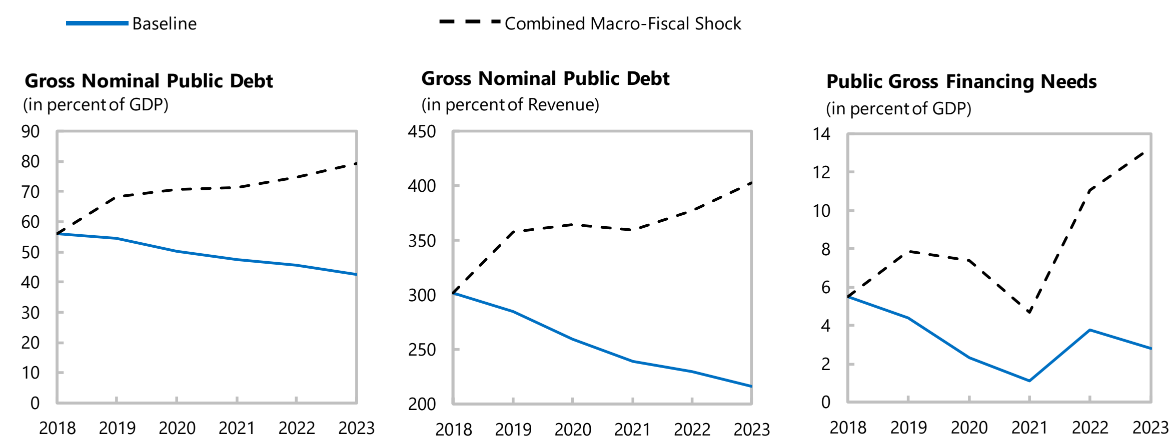
Source: IMF staff.

Figure 5. Gabon: Public DSA – Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions

(in percent)

Primary Balance Shock	2018	2019	2020	2021	2022	2023
Real GDP growth	2.0	3.4	4.2	4.5	4.5	4.5
Inflation	7.1	0.0	0.2	0.2	-1.0	0.5
Primary balance	4.0	0.7	1.8	4.1	4.4	4.7
Effective interest rate	4.3	4.3	4.1	4.0	4.0	4.3
Real Interest Rate Shock						
Real GDP growth	2.0	3.4	4.2	4.5	4.5	4.5
Inflation	7.1	0.0	0.2	0.2	-1.0	0.5
Primary balance	4.0	3.1	4.2	4.1	4.4	4.7
Effective interest rate	4.3	4.3	6.3	8.2	10.3	14.1
Combined Shock						
Real GDP growth	2.0	0.5	1.3	4.5	4.5	4.5
Inflation	7.1	-0.7	-0.5	0.2	-1.0	0.5
Primary balance	4.0	0.7	1.8	4.1	4.4	4.7
Effective interest rate	4.3	5.0	6.8	9.3	11.5	15.2

Real GDP Growth Shock	2018	2019	2020	2021	2022	2023
Real GDP growth	2.0	0.5	1.3	4.5	4.5	4.5
Inflation	7.1	-0.7	-0.5	0.2	-1.0	0.5
Primary balance	4.0	2.5	3.1	4.1	4.4	4.7
Effective interest rate	4.3	4.3	4.1	4.0	4.0	4.3
Real Exchange Rate Shock						
Real GDP growth	2.0	3.4	4.2	4.5	4.5	4.5
Inflation	7.1	6.0	0.2	0.2	-1.0	0.5
Primary balance	4.0	3.1	4.2	4.1	4.4	4.7
Effective interest rate	4.3	5.0	4.1	4.0	4.1	4.3

Source: IMF staff.

Table 1. Gabon: External Public Debt Sustainability Framework, 2013–23

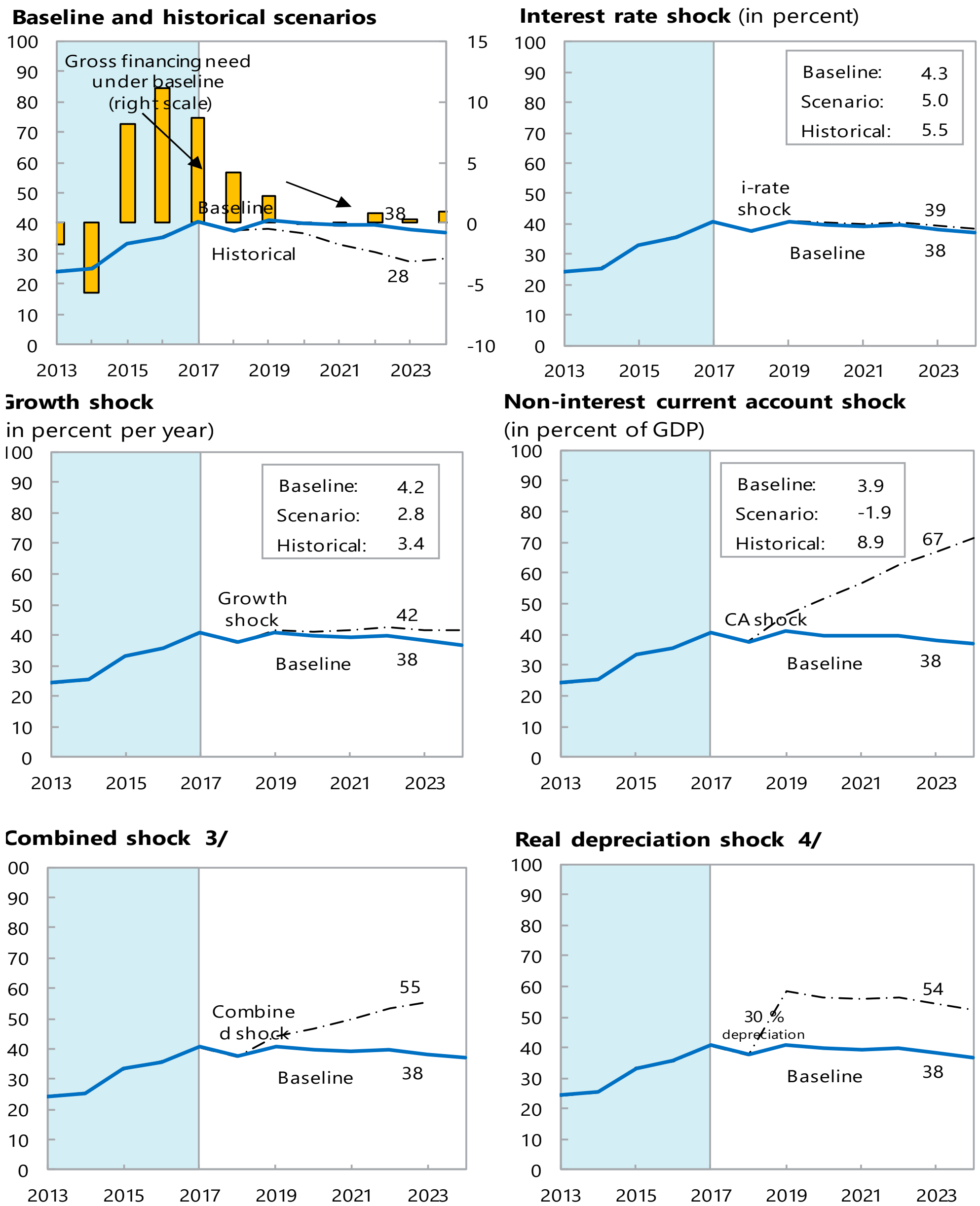
(Percent of GDP, unless otherwise indicated)

	Actual							Projections						
	2013	2014	2015	2016	2017	10-Year Historical Average	10-Year Standard Deviation	2018	2019	2020	2021	2022	2023	Debt-stabilizing non-interest current account 6/
1 **Baseline: External debt**	24.2	25.3	33.3	35.6	40.6			**37.6**	**40.9**	**39.8**	**39.4**	**39.5**	**38.0**	**-5.8**
2 Change in external debt	7.6	1.1	7.9	2.4	4.9			-3.0	3.3	-1.1	-0.4	0.2	-1.5	
3 Identified external debt-creating flows (4+8+9)	-12.8	-14.1	5.4	1.9	-6.4			-8.4	-11.2	-12.6	-10.0	-10.8	-11.2	
4 Current account deficit, excluding interest payments	-8.8	-8.6	4.1	8.5	3.1			-0.3	-1.2	-3.7	-3.7	-5.2	-5.7	
5 Deficit in balance of goods and services	-17.8	-13.1	-4.6	-1.7	-7.0			-11.9	-12.3	-13.8	-13.1	-14.5	-14.6	
6 Exports	61.5	54.5	43.5	36.2	41.2			45.2	45.6	45.1	44.5	44.4	43.9	
7 Imports	43.7	41.3	38.9	34.4	34.2			33.3	33.3	31.3	31.4	30.0	29.3	
8 Net non-debt creating capital inflows (negative)	-5.1	-5.8	-6.9	-8.9	-9.1			-9.1	-10.3	-8.9	-6.2	-5.4	-5.4	
9 Automatic debt dynamics 1/	1.1	0.2	8.2	2.2	-0.4			1.1	0.4	0.0	-0.1	-0.1	-0.1	
10 Contribution from nominal interest rate	1.5	1.0	1.5	1.4	1.8			1.8	1.6	1.6	1.6	1.6	1.6	
11 Contribution from real GDP growth	-0.9	-1.0	-1.2	-0.7	-0.2			-0.7	-1.2	-1.6	-1.7	-1.7	-1.7	
12 Contribution from price and exchange rate changes 2/	0.5	0.2	8.0	1.6	-2.0			...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) 3/	20.4	15.3	2.5	0.5	11.3			5.4	14.5	11.5	9.6	10.9	9.7	
External debt-to-exports ratio (in percent)	39.4	46.5	76.5	98.5	98.4			83.1	89.6	88.1	88.4	89.0	86.6	
Gross external financing need (in billions of US dollars) 4/	-0.3	-1.0	1.2	1.6	1.3			0.7	0.4	0.0	0.0	0.2	0.1	
in percent of GDP	-1.7	-5.7	8.2	11.1	8.7			4.2	2.3	-0.1	-0.2	0.9	0.4	
Scenario with key variables at their historical averages 5/								**37.6**	**38.1**	**36.7**	**33.1**	**30.7**	**27.5**	**-5.1**
Key Macroeconomic Assumptions Underlying Baseline														
hid(Nominal GDP (US dollars)	17.6	18.2	14.4	14.0	14.9			17.3	17.9	18.9	19.8	20.6	21.7	
Real GDP growth (in percent)	5.5	4.4	3.9	2.1	0.5	3.4	2.9	2.0	3.4	4.2	4.5	4.5	4.5	
GDP deflator in US dollars (change in percent)	-2.9	-0.9	-24.0	-4.5	6.0	-0.4	15.4	13.7	-0.3	1.3	0.6	-0.4	0.7	
Nominal external interest rate (in percent)	9.3	4.5	4.5	4.0	5.3	5.5	1.5	5.1	4.4	4.2	4.2	4.2	4.3	
Growth of exports (US dollar terms, in percent)	-2.9	-8.4	-36.9	-19.0	21.4	2.3	29.1	27.3	3.9	4.5	3.6	3.9	4.0	
Growth of imports (US dollar terms, in percent)	23.7	-2.1	-25.6	-13.8	5.8	5.4	19.7	13.0	3.0	-0.7	5.4	-0.6	2.9	
Current account balance, excluding interest payments	8.8	8.6	-4.1	-8.5	-3.1	8.9	11.6	0.3	1.2	3.7	3.7	5.2	5.7	
Net non-debt creating capital inflows	5.1	5.8	6.9	8.9	9.1	5.8	2.0	9.1	10.3	8.9	6.2	5.4	5.4	

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

(External debt in percent of GDP)



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

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

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

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

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

Annex II. External Sector Assessment

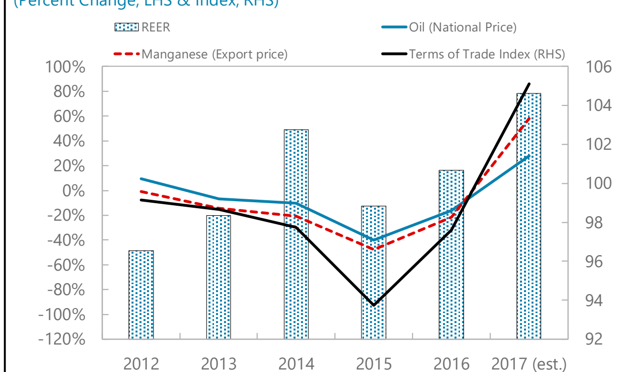
Gabon's external position for 2018 is assessed to be weaker than implied by medium-term fundamentals and desirable policies, as suggested by model-based empirical approaches for exchange rate assessments. The improvement in assessment, compared to 2017 when the external position was judged to be substantially weaker, is due to an uptick of commodity prices (mainly oil and manganese), leading to a narrowing of the current account deficit from 10 to 5 percent of GDP in 2017. The fall in Gabon's gross imputed reserves at the BEAC has slowed but remains under 2.5 months of prospective imports. Given Gabon's membership in the CEMAC monetary union, competitiveness will continue to depend more on structural improvements led by reform-oriented fiscal policies and diversification strategies, than on the level of the exchange rate per se.

1. **Gabon's terms of trade improved slightly in 2017, halting its continued deterioration since 2014 following the decline of oil prices.** The improvement is attributed mainly to an uptick in oil and manganese prices, both increasing by approximately 29 percent (Figure 1). In 2017, the real and effective exchange rate appreciated by 4 percent, mainly driven by the appreciation of the Euro, to which the CFA franc is pegged, relative to the US dollar.

2. **The current account deficit moderated in 2017, reversing recent developments.** The deficit widened to 9 percent of GDP in 2016, but is now estimated to have narrowed to approximately 5 percent of GDP. Oil export revenues are projected to have been CFAF 2,234 billion (US$ 3.8 billion) in 2017, increasing from CFAF 1,941 billion (US$ 3.3 billion) in 2016. The deficit is projected to narrow further in 2018, and gradually decline over time and turn positive by 2021, helped by a rise in non-oil exports.

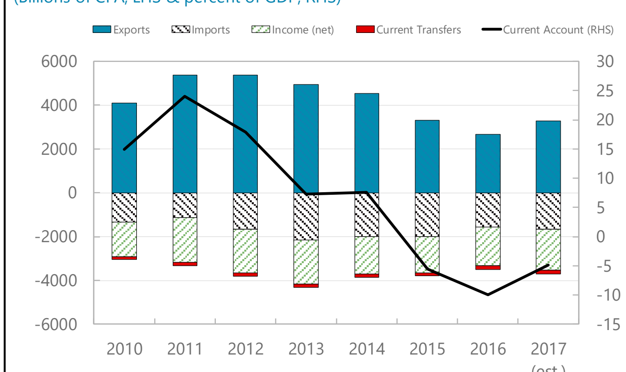
3. **External sustainability assessments point to an overvaluation of the real exchange rate between 12 and 15 percent.** The external assessment is done using the standard EBA-light toolkit, including the CA model and the Index REER Model, but not the ES approach since there is no available data for the net international investment position (NIIP) and related series for Gabon. The EBA-lite normative assessments center on whether

Figure 1 - Commodity Prices, Terms of Trade & REER
(Percent Change, LHS & Index, RHS)



Sources: Gabonese Authorities and Staff Estimates

Figure 2 - Current Account, 2010-2017
(Billions of CFA, LHS & percent of GDP, RHS)



Sources: Gabonese Authorities and Staff Estimates the current account and real exchange rate deviate from an estimated norm. The CA norm is estimated for a large set of emerging markets. The EBA-lite methodologies indicate a range between 10-16 percent overvaluation. These results were obtained when specifying a range of assumptions: (i) the target reserve level should be obtained in a three- to five-year period; and (ii) an ad-hoc adjustment to remove the effect of cyclcial factors and to exclude the contribution of large agri-industry projects to the CA (approx. 1.7 percent of GDP on average in the medium term) from the CA norm. This is because the export activities of the agri-industry (originating from the SEZ) are tax-exempt and do not contribute to improving the fiscal path. The medium-term CA norm is thus consitsent with the macro-framework's medium-term CA excluding large agri-industry projects.

Table 1. Gabon: External Sector Assessment (CA/REER Approach)

Summary Table: EBA-Lite: CA Norm and IREER

	CA Norm	REER	CA Norm	REER
CA-Actual	-4.9%		-4.9%	
CA-Actual, Cyclically Adjusted	-4.0%		-4.0%	
CA-Norm, Cyclically Adjusted\1	0.6%		0.3%	
CA-Gap	**-4.6%**		**-4.3%**	
Elasticity	-0.28		-0.28	
ln(REER)-Actual		4.63		4.63
ln(REER)-Norm		4.53		4.53
Real Exchange Rate Gap	**16.6%**	**10%**	**15.6%**	**10%**
Assumptions				
Years to adjust	3		5	
Current reserve level in $ bn.	0.92		0.92	
Reserves target in $ bn	2.62	5-months imports	2.62	5-months imports
Needed Reserves accum. in Bn $	1.70		1.70	
Needed yearly adjustment in $ bn	0.57		0.34	
Needed Adjustment (P*), change in reserves/GDP (per year)	0.03		0.02	
Medium term Overall Fiscal balance (P*), overall balance/GDP	0.01		0.01	

Note: \1 The cyclically adjusted CA norm makes an ad-hoc adjustment related to the contribution of large agri-industry projects to the CA (approx. 1.7 percent of GDP on average in the medium term), since their activities (originating from the SEZ) are tax-exempt and do not contribute to improving the fiscal path. The cyclically adjusted CA norm therefore reflects the medium term CA excluding these projects.

Source: IMF staff estimates.

4. **Applying exchange rate assessments tailored to resource rich countries indicates a more moderate degree of overvaluation.** Oil exporters are different from other countries on a series of dimensions, including the importance of oil revenues to the fiscal accounts, and the need to build extra reserves for intergenerational consumption smoothing. The methodology developed by Bems and Carvalho (2009)[1] allows an additional assessment of the exchange rate valuation, based on domestic and external fundamentals and tailored to the conditions of a resource-rich country.

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

The table below presents the medium-term trade balance norm and overvaluation building from the baseline macroeconomic framework and WEO projections. Depending on the choice of allocation rule from nonrenewable resources, an overvaluation between -2 and 10 percent is estimated. When balancing the various quantitative assessments with an analysis of macroeconomic fundamentals and what should be deemed a set of desirable policies, staff judges the exchange rate to be overvalued by about 9 to 16 percent.

Table 2. Gabon: External Sector Assessment (Resource Rich Countries)[1]

	Bems and Carvalho		
	Constant real annuity	Constant real per capita annuity	Constant annuity over output
MT trade balance norm (Percent of GDP)	1.8	4.2	7.0
Underlying trade balance (Percent of GDP)	3.4	3.4	3.4
Trade balance elasticity[2]	0.6	0.6	0.6
Overvaluation (Percent)	-2.8	1.4	6.2

Source: IMF staff estimates.

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

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

Source: IMF staff estimates.

5. **Since Gabon belongs to a monetary union, the available paths to regain competitiveness are more limited than in countries with a flexible exchange rate.** The ongoing process of structural transformation and economic diversification will continue to be decisive factors in boosting competitiveness and ensuring external stability.

a. Near- and medium-term export development strategies: In the near-term, export competitiveness will be boosted by a rise in mining sector activity due to an increase in manganese and iron-ore prices. New general cargo and bulk ports, both completed in 2017, will allow on and offloading of vessels in less than half the cost and time, contributing to an improvement in the efficiency of export-led sectors. Over the medium-term, export expansion will be supported by FDI-related investments in agri-business projects, which will raise the export potential in new commodity classes, such as palm-oil and timber. As a result of this investment activity, the current account is expected to improve by about 1-2 percent of GDP, compared to a framework without the agri-industry projects.

b. Strategies to enhance public sector efficiency: The current Fund-supported program provides underpinning to prudent fiscal policies, especially PFM measures to improve the efficiency of spending, notably on infrastructure and public investment, complementing FDI-led activities in the exporting sectors. Other fiscal measures aiming to relieve structural bottlenecks will also improve the business climate and attract further FDI, aiding the external sector recovery.

The above-mentioned strategies will enable the external sector position to gradually strengthen over the medium term, and facilitate the accumulation of reserves to an adequate level.

Appendix I. Letter of Intent

July 24, 2018

The Managing Director
International Monetary Fund
Washington, DC

Dear Ms. Lagarde,

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

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

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

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

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

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

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

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

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

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

Sincerely yours,

/s/

Jean-Marie OGANDAGA
Minister of Economy, Prospective and Development Planning

Attachments (2)

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

Attachment I. Memorandum of Economic and Financial Policies

July 24, 2018

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

A. Economic Outlook

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

B. Fiscal Policy

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

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

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

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

---

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

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

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

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

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

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

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

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

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

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

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

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

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

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

---

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

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

C. Arrears Management

Strategy to Audit the Stock of Arrears

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

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

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

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

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

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

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

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

D. Measures to Prevent the Accumulation of New Expenditure Arrears

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

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

22. Active cashflow management will be reinforced.

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

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

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

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

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

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

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

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

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

E. Measures to Mobilize Non-Oil Revenues

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

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

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

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

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

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

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

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

F. Other PFM Structural Reforms

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

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

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

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

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

G. Social Sector Policies

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

H. Financial Sector

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

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

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

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

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

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

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

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

I. Diversification and the Business Environment

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

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

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

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

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

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

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

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

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

J. Statistics

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

Support for High-Level Public-Private Dialogue

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

K. Program Monitoring

45. Program implementation will be monitored through prior actions, semi-annual reviews, quantitative performance criteria and indicative targets, continuous performance criteria, and structural benchmarks. The third review is set for December 2018, based on end-June 2018 quantitative performance criteria, the continuous performance criterion and relevant structural benchmarks. For all reviews, quantitative performance criteria will include: a floor on non-oil revenue, a floor on the primary fiscal balance, excluding oil revenue (on a payment order basis); a ceiling on the stock of net claims of the banking system on the central government; a ceiling on central bank net claims on central government, excluding the use of IMF credit; a ceiling on contracting or guaranteeing of external debt (program and project); and a ceiling on the accumulation of new external arrears by the central government. The prior actions and structural benchmarks are set out in Tables 3 and 4. The quantitative targets for target dates through end-June 2018, along with a continuous quantitative performance criterion are set out in Tables 1 and 2.

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

(Billions of CFAfrancs, unless otherwise indicated)

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

Sources: Gabonese authorities and IMF staff estimates.

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

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

3/ Staff report on the Request for an Extended Arrangement Under the Extended Fund Facility (June 6, 2017; EBS/17/52).

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

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

6/ The authorities' own target.

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

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

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

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

11/ Includes spending on health (i.e. primary and preventive care), education (pre-primary, primary, and secondary education), and social safety net programs.

Table 2. Gabon: Proposed Quantitative Program Targets, 2017–19[1, 2]

(Billions of CFA francs, unless otherwise indicated)

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

Sources: Gabonese authorities and IMF staff estimates.

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

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

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

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

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

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

7/ Reports the current stock of new arrears that have been accumulated since the latest review. The latest estimate is as of July 18th 2018.

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

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

Table 3. Gabon: Structural Benchmarks for 2017–18

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

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

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

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

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

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

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

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

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

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

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

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

Table 4. Gabon: Proposed New Structural Benchmarks for 2018

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

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

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

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

Attachment II. Technical Memorandum of Understanding

July 24, 2018

1. **This Technical Memorandum of Understanding (TMU) sets out the understandings between the Gabonese authorities and the International Monetary Fund (IMF) regarding the definition of quantitative performance criteria (QPC) and indicative targets (IT).** It also set out the QPC and IT adjusters, and data reporting requirements for the duration of the extended arrangement under the Extended Financing Facility, as described in the authorities' Letter of Intent (LOI) dated July 24, 2018, and the attached Memorandum of Economic and Financial Policies (MEFP). As is standard under all Fund arrangements, we will consult with the Fund before modifying measures contained in the LOI/MEFP, or adopting new measures that would deviate from the goals of the program, and provide the Fund with the necessary information for program monitoring.

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

3. **For program purposes, all foreign currency-related assets, liabilities, and flows will be evaluated at "program accounting exchange rates" as defined below, except for items affecting government fiscal balances, which will be measured at current exchange rates.** Unless otherwise indicated, U.S. dollar denominated components of the balance sheet of the Bank of Central African States (BEAC) will be valued at the official exchange rate of the CFAF to the U.S. dollar of 546.89 as of June 1, 2018. Amounts denominated in other currencies will be converted for program purposes into U.S. dollar amounts using the following cross-rates: the Euro valued at 1.1994 U.S. dollars, Pound Sterling valued at 0.7868 U.S. dollars, the Chinese Yuan valued at 6.8812 U.S. dollars, the Special Drawing Right (SDR) valued at 1.4331 U.S. dollars. Official gold holdings were valued at 1,314.42 U.S. dollars per fine ounce.

I. Quantitative Performance Criteria: Definition of Variables

4. **Definitions:** The central government (CG), for the purposes of the program, consists of all institutions, government units, and special funds (including the Road Fund) currently covered under the state budget. It does not include any local government authorities, the Bank of Central African States (BEAC), or any government-owned entity with separate legal status. The authorities will inform the Fund staff of any new funds, or other special budgetary and extra-budgetary programs that may be created during the program period to carry out operations of a fiscal nature and will ensure that these will be incorporated within the definition of central government.

5. **The fiscal year is the calendar year, starting on January 1 and ending on December 31.**

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

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

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

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

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

8. Definition. Total CG revenue (excluding oil revenue) is measured on a cash basis and includes offsetting revenue and expenditure operations, including private sector tax obligations offset against central government obligations to the private sector. Tax receipts are specified in the Table of central government financial operations (*Tableau des opérations financières de l'Etat–TOFE*), including all earmarked revenues (Road Fund and special funds). Oil revenue includes payments received in cash and in crude (Text Table 1). Revenue received by the treasury will be registered after encashment, which will be at most 7 days after the date of receipt; oil revenue received in kind will be recorded at transaction value on the day of sale.

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

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

11. Reporting. Data will be provided to the Fund with a lag of no more than six weeks after the end of the month.

12. Adjusters: The floor on the cumulative primary non-oil fiscal balance of the CG on a payment order basis will be adjusted downward (upward) to the extent that external financing is more (less) than external program disbursements given in Text Table 1, to a maximum of CFAF 80 billion.

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

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

Sources: Gabonese authorities and IMF staff projections.

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

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

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

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

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

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

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

Source: BEAC

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

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

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

i. The program ceiling will be adjusted downward (upward) by the full amount of the cumulative excess (shortfall) in external program disbursements relative to the baseline projections in Text Table 1, up to a maximum of CFAF 80 billion.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

   a. loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

   b. suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

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

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

22. Definition. For the purposes of the ceiling on contracting or guaranteeing external debt by the central government, external debt is defined as debt contracted or serviced in a currency other than the franc of the Financial Community of Africa (CFAF). The PC concerning external debt contracted by the central government applies to all external debt (whether or not concessional) contracted or guaranteed by the CG, including commitments or guaranteed for which no value has been received. The performance criterion will be assessed on a cumulative basis during the fiscal year. The performance criterion does not apply to:

i. Normal import-related commercial debt having a maturity of less than one year;

ii. Rescheduling agreements;

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

23. Adjusters.

i. The program ceiling applicable to new external debt is adjusted upward up to a maximum of 5 percent of the ceiling on new external debt in cases in which differences vis-à-vis the PC on new debt are caused by a variation in financing conditions (interest, maturity, grace period, payment schedule, front-end fees, management fees) of the debt or debts. The adjustor may not be applied when the differences are the result of an increase in the face value of the total debt contracted or guaranteed.

ii. The program ceiling will be adjusted upward (downward) in cases where early (late) disbursements of specifically agreed and identified financing flows take place.

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

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

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

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

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

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

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

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

II. QUANTITATIVE INDICATIVE TARGETS: DEFINITION OF VARIABLES

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

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

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

B. Cumulative Floor on Central Government Social Spending

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

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

III. PROGRAM MONITORING

A. Reporting Requirements

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

- the comprehensive monetary survey, the central bank balance sheet, and the consolidated balance sheet of the commercial banks (electronic file);
- the central government financial operations (*opérations financières de l'Etat)* on a payment order basis (*ordonnancements*), identifying any discrepancy between the fiscal deficit and changes in domestic and external arrears and in the treasury float, on the one hand, and total net domestic bank/nonbank and net external financing, on the other (electronic file);
- the detailed breakdown of oil revenue by type of revenue (royalties, profit tax, dividends, bonuses and other) and by company/type of contract, as well as the detailed breakdown of non-oil tax revenue (by type of tax) and nontax revenue (electronic file);
- the detailed breakdown of total central government expenditure, on an adjusted commitment basis, adjusted payment order basis, and cash basis as presented in the *Tableau Intégré* (electronic file);
- the details for domestic and external debt-service obligations, on a contractual and actual payments basis, respectively, with a breakdown into interest and principal and by creditor, as well as any possible accumulation of domestic or external arrears (electronic file);
- the details on the stock of external and domestic debt at the end of each quarter prepared by the Generate Directorate of Debt. The external debt stock is to be evaluated at end-of-quarter exchange rates (electronic file);
- the details for the outstanding stock of the treasury float (month to month) and the cumulative flows from January 1, 2017; the net accumulation of new float since 2017, defined in paragraph 6 as the difference between payment orders (*ordonnancements*) and payments made (cash basis), as well as the repayment of pre-2017 and 2017 onwards float, with both items to be broken down by wages and salaries, goods and services, transfers and subsidies, interest, capital expenditure, and net lending; any stock-flow adjustment not consistent with flows should be explained (electronic file);
- information on the balance of the accounts relating to treasury correspondents (*correspondants du Trésor*), local governments (*collectivités locales*), and other treasury financial operations specified in the TOFE;
- the amount of new external debt contracted or guaranteed by the central government, with the detailed information on the original terms and conditions (currency of denomination, interest rate, grace period, and maturity) and the envisaged path of disbursement;
- actual disbursements on external debt, including on newly contracted loans, by creditors and by projects/programs and the amounts of debt relief, if any, granted to Gabon by external creditors (electronic file);
- monthly information on the oil sector: export prices, effective exchange rate, production per oil field, volume of exports and volumes provided to SOGARA based on data from the *Direction Générale des Hydrocarbures* (electronic file);

- quarterly report on numbers and value of procurement contracts treated by the *Direction Générale des Marchés Publics* (DMP) by type of contracting;
- indicators and other statistical data on recent economic developments, such as the household consumer price index, merchandise imports and exports (in value and volume terms) by major categories on the basis of customs data, timber production and exports by categories (in value and volume terms), as well as the quarterly reports on economic activity prepared by the General Directorate of the Economy (DGE) and six-monthly report of the balance of payments by the BEAC; and
- a status report on the implementation of the structural reforms specified in Table 2 attached to the letter of July 24, 2018.

33. The Technical Committee in charge of monitoring the Fund-supported program will provide the African Department of the IMF with any other information that the latter may deem necessary or that may be requested by the staff of the IMF for the effective monitoring of the program.

Mr. Daouda Sembene Executive Director for Gabon; Mr. Razafindramanana, Alternate Executive Director; and Mr. Nguema-Affane Senior Advisor to the Executive Director

July 27, 2018

1. The Gabonese authorities are thankful to Management and staff for their continued support to their economic recovery program (PRE) supported by the Extended Fund Facility (EFF). Consistent with their commitment under the EFF arrangement, the authorities are taking a wide range of measures to advance reform implementation—albeit with delay at times—to keep the program on track. Faced with increasing resource constraints, the new government established in May 2018 an economic task force responsible for identifying a set of additional adjustment measures to firmly put public finances on a sustainable path, consistent with the objectives of the program. Such measures were adopted in the context of the revised 2018 budget, paving the way for their implementation. In addition, significant progress has been made in clearing arrears. In this light, the authorities request the completion of the second review under the EFF arrangement.

Recent Economic Developments and Program Performance

2. As noted by staff, macroeconomic conditions in Gabon have begun to improve gradually, notably with welcome signs of economic stabilization. Non-oil commodity sectors including mining, forestry, and agribusiness continued to experience fast growth, helping mitigate the effects of the slowdown in the overall non-oil sector. Inflation remains contained while the external position improved. An increase in oil and mineral exports helped to reduce the current account deficit in 2017. At the same time, an increase in foreign direct investments in the agri-business sector helped to improve the capital account. As a result, Gabon's net foreign assets at the BEAC increased, thereby helping to further strengthen regional external stability.

3. Fiscal consolidation efforts continued in 2017. Although oil production declined, higher prices and exceptional revenues led to higher oil revenues. However, non-oil revenues fell due to weak economic activity and strikes in the tax administration. The introduction of new measures aimed at boosting non-oil revenue mobilization during the last quarter of 2017 helped to avert a more severe deterioration in revenues. Lower revenues and delays in the disbursements of external assistance - which materialized in late December 2017 - led to strong cashflow pressures which complicated budget execution. In the face of limited resource availability, additional cuts to public spending, notably capital expenditures, were made, thereby contributing to more than offsetting the decline in total revenues. As a result, the overall fiscal deficit on a cash basis was almost halved in 2017 to 3.4 percent of the GDP, which made it possible to contain external and domestic borrowing and ensure a reduction in total public debt. Budget execution since

the start of 2018 remained difficult with renewed cashflow pressures stemming from a continued underperformance of total revenues.

4. Budgetary pressures and weaknesses in debt management undermined efforts to fully service some external loans and clear arrears in a timely manner, as envisaged at the time of the first review. As described in the staff report, further complications arose in early 2018, materializing into further debt arrear accumulation. Nevertheless, public debt remains sustainable following the significant progress toward rescheduling and clearance of debt arrears, particularly those owed to bilateral and multilateral creditors. The authorities are committed to making similar inroads with regard to arrears owed to commercial creditors. The stock of domestic debt also declined in 2017. In this connection, a new "Club de Libreville", a payment plan used in the past to clear domestic arrears, has been agreed in April 2018 to settle a large share of domestic arrears to small- and medium-sized enterprises over the next six years.

5. The implementation of the wide array of fiscal reforms is advancing but at slower-than-expected pace, as indicated in the staff report. In particular, progress is being made in strengthening tax and customs administrations, improving public financial management, and enhancing public investment management. The strategy to reduce the wage bill resulted in modest savings in 2017 largely thanks to efforts undertaken to update payrolls and rationalize staff-related expenditure. In addition, the framework to secure timely VAT refunds is being put in place and several measures have been initiated to detect, prevent, and address cases of VAT fraud and led to tax adjustments.

6. Strong measures were taken to firmly put public finances on a sustainable path and to accelerate fiscal reforms. Given the persistent downward trend in total revenue, the authorities took in July 2018 a wide package of fiscal measures to further boost non-oil revenue and contain expenditures. These include reducing the annual wage bill by 10 percent in 2018 through wage cuts and freezes in recruitment, the elimination of one hundred autonomous agencies with their activities reintegrated into regular government ministries, and the streamlining of the costly program of customs duty exemptions. These measures were included in the revised 2018 budget, which has been approved by the Senate. It is the authorities' belief that they will contribute to further improving the fiscal position. As a contingency measure to better manage fiscal risks, an automatic adjustment mechanism has been set up to adjust public spending, except for social spending, in case non-oil revenue collection underperforms projections.

7. The banking system remains generally sound, but vulnerabilities are rising. NPLs increased and bank lending to the private sector declined further in 2017 and early 2018, reflecting notably stagnant economic activity and elevated domestic arrears. Progress in developing a framework for the resolution of NPLs has taken longer than expected due to financial constraints. Efforts by the authorities to resolve the three distressed public banks

are advancing in collaboration with COBAC. A reputable international consultant will be hired this year to develop a resolution plan to minimize the related cost.

8. In terms of program performance, three out of five end-December 2017 performance criteria (PC) were met. Financing constraints were an important factor in missing the PC related to the non-oil primary balance and the continuous PC on external arrears and the three indicative targets on non-oil revenue mobilization, social spending, and domestic arrears. As indicated in the staff report, it is likely that these two PCs and the one on net central bank claims on the government were also missed at end-June 2018. Delays occurred in implementing structural benchmarks (SBs) through end-March 2018 but most related measures have been implemented since then.

Policies for the Medium Term

9. Medium-term prospects remain relatively promising. The large and continuing FDI flows toward agri-business and other nontraditional sectors can help the Gabonese economy to reduce its dependence on oil and governmental activities. At the same time, higher oil prices, as well as recent oil discoveries and the ongoing work for a new fiscal regime for oil, should encourage new investments and contribute to economic activity in the service sector. The largely rural and labor-intensive agricultural and forestry projects could also generate positive spillovers, as reforms to improve the business climate are implemented. Credit expansion is expected to pick up as recovery takes place.

10. The authorities remain strongly committed to the program and intend to speed up reform momentum to strengthen macroeconomic stability and foster economic diversification while further contributing to the regional external stability. They agree with staff that there is a risk of social resistance to the recent policy decisions to contain public spending and that a disorderly implementation of reforms could threaten the achievement of the program objectives. To minimize those risks, they are strengthening coordination between government institutions.

11. Fiscal policy remains the centerpiece of the program. It aims at preserving fiscal and debt sustainability by targeting a reduction in the fiscal deficit in 2018 and a return to an overall fiscal balance and surpluses over the medium term. This progressive improvement of the fiscal position will make it possible to reduce the level of total public debt to below 50 percent of GDP by the end of the Fund-supported program and increase the fiscal space for higher social and investment spending. Given the tight financing constraints the country is still facing, further assistance from international organizations will be critical to financially support the authorities' macroeconomic and fiscal objectives, including to pay the domestic and external debt.

12. The authorities are committed to timely implementation of the critical fiscal reforms presented in the MEFP. In particular, ongoing efforts to increase domestic revenue mobilization will be sustained with a special focus will be placed on recovering tax arrears and strictly enforcing compliance with tax policy. To provide greater visibility to the creditors and address cash pressures, a new deferred payment that eliminate VAT credits will be introduced in the 2019 budget law. Fiscal reporting of earmarked revenues and corresponding expenditures, and the financial oversight of public entities and departmental agencies will be reinforced. The transparency of public procurement and the efficiency of public investment management will be improved. PFM reforms undertaken since 2015 will be consolidated. The Treasury Single Account will be consolidated through the transformation as TSA subaccounts of all existing government accounts in commercial banks. The predictability and quality of social spending will be improved, with the assistance of the World Bank.

13. The authorities will pursue the implementation of their arrears strategy and pursue the implementation of measures to prevent the accumulation of new domestic arrears. In particular, in addition to strengthening fiscal reporting, cashflow management is being reinforced, with regular meetings of the Government's Cashflow Committee, and monthly fiscal cash flow plan to ensure no short-term liquidity shortfall.

14. Preserving financial sector stability and ensuring that the financial sector play a leading role in supporting private sector activity remain a top priority in the national and regional authorities' agenda. Given that the rise of overdue loans to banks is a key financial sector vulnerability, the development of a framework for the resolution of NPLs will be a top priority.

15. The implementation of the structural reforms aimed at bolstering competitiveness and setting the basis for a strong and durable medium-term recovery will continue. Based on the first progress report of the PRE, structural reforms going forward will focus on restoring private sector confidence. These reforms include the completion of the land titling reforms by end-2018, the operationalization of the Arbitration Chamber that was created in April 2018; reducing time and costs pertaining to building permits; strengthening the one-stop-shop centers following their assessment study; and completing the ongoing reform of the labor code with the objective to make it more flexible and increase formal employment in the country.

Conclusion

16. Despite underperforming revenue collection, the authorities remain committed to the objectives of their Fund-supported program and have taken decisive actions to keep it on track. In light of these actions, Director's favorable consideration of the authorities' request for the completion of the second review of the program under the EFF

arrangement will be appreciated. They also request a waiver of nonobservance for the continuous performance criterion on external arrears accumulation and two end-June performance criteria related to non-oil primary fiscal balance and net central bank claims on the government.