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GABON

January 2019

THIRD REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, AND REQUESTS FOR WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION, AND MODIFICATION OF PERFORMANCE CRITERION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR

In the context of the Gabon—Third Review under the Extended Arrangement Under the Extended Fund Facility, and Requests for Waiver of Nonobservance of Performance Criterion, and Modifications of Performance Criterion, 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 December 19, 2018, following discussions that ended on November 16, 2018, with the officials of Gabon on economic developments and policies underpinning the Extended Arrangement under the Extended Fund Facility. Based on information available at the time of these discussions, the staff report was completed on December 7, 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*
- Supplementary Letter of Intent sent to the IMF by the authorities of Gabon*

*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.

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December 19, 2018

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USA

IMF Executive Board Completes the Third Review of Gabon's Extended Arrangement and Approves US$99 Million Disbursement

- Executive Board decision brings total IMF disbursements to Gabon to about US$395.9 million.
- The government's reform program, supported by the IMF, aims to restore macroeconomic stability and lay the foundation for inclusive growth.

On December 19, 2018, the Executive Board of the International Monetary Fund (IMF) completed the third review of Gabon's economic program supported by an extended arrangement under the Extended Fund Facility[1]. Completion of the review enables the immediate disbursement of SDR 71.43 million (about US$99 million). This brings total disbursements under the arrangement so far to SDR 285.72 million (about US$395.9 million).

In completing the third review, the Executive Board approved the authorities' requests for waivers of nonobservance of a performance criterion and modification 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 restore macroeconomic stability and lay

[1] The Extended Fund Facility (EFF) was established to provide assistance to countries: (i) experiencing serious payments imbalances because of structural impediments; or (ii) characterized by slow growth and an inherently weak balance of payments position. It provides assistance in support of comprehensive programs that include policies of the scope and character required to correct structural imbalances over an extended period.

the foundation for inclusive growth. It also seeks to attain debt sustainability at the national level and contribute to the external stability of the Central African Economic and Monetary Union (CEMAC).

Following the Executive Board discussion, Mr. Mitsuhiro Furusawa, Deputy Managing Director and Acting Chair, made the following statement:

"Gabon's performance under the EFF arrangement has improved. The authorities have taken important and difficult actions to keep the program on track despite the October 2018 legislative elections. However, the economic recovery remains fragile and further fiscal consolidation and decisive reforms are needed to achieve strong and sustainable growth.

"The authorities are committed to continuing with growth- friendly fiscal consolidation. This requires steadfast implementation of measures to boost non-oil revenues and contain non-priority spending, while protecting social and investment spending. Enhancing budgetary execution and oil revenue management, and further improving cash and debt management are also priorities.

"Safeguarding banking sector stability is essential for growth. The authorities plan to accelerate the liquidation of the three distressed banks and expeditiously tackle the NPL overhang to support financial stability, promote credit to the private sector, and growth.

"Gabon's program continues to be 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

December 7, 2018

THIRD REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, AND REQUESTS FOR WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION, AND MODIFICATION OF PERFORMANCE CRITERION

EXECUTIVE SUMMARY

Context and Outlook. Political risks appear to have subsided with the completion of legislative and local elections in October. The economy is slowly recovering, fiscal consolidation has continued, inflation has remained low, and the trade balance has improved. The recovery is expected to firm up in 2019 and the medium-term outlook is still promising, although risks remain mostly tilted to the downside.

Program performance. Performance on program conditionality through end-June 2018 was weak. Two out the four end-June 2018 quantitative performance criteria (QPCs) were missed (which the Executive Board already waived at the time of the completion of the second review), and the continuous zero ceiling on external arrears was also missed. The other two quantitative performance criteria (for which data were not available at the time of the completion of the second review) were met. The three indicative targets were missed. However, program implementation has improved since the completion of the second review. The authorities have fully implemented the package of corrective measures included in the 2018 supplementary budget. Most indicative targets for end-September 2018 were met and most structural benchmarks (SBs) have been implemented, albeit some with delays. The authorities have also completed one prior action and are working to implement the remaining two for this review. However, there was a new accumulation of external arrears, including to official bilateral creditors, which the authorities are in the process of clearing by the Executive Board meeting.

Policies. Fiscal consolidation remains a priority under the program. The non-oil primary deficit is expected to fall to 6.4 percent of non-oil GDP in 2018 from 11 percent in 2016. Fiscal policy in 2019 aims at further enhancing non-oil revenue mobilization and improving the composition of public spending to provide space for priority social and capital expenditure. The structural agenda will focus on reforms to improve PFM and the transparency and oversight of autonomous agencies and state-owned enterprises; enhance transparency in the oil sector (including application to EITI

by end-September 2019); and strengthen banking sector resilience. Consolidation of the treasury single account, and the implementation of recommendations of the recent IMF technical assistance, including the development of weekly cashflow forecasts, will help strengthen debt and cash management and avoid the accumulation of new arrears. The program policies will support the CEMAC's strategy aimed at rebuilding external buffers.

Staff recommends completion of the third review, modification of the external debt performance criterion, and the authorities' request for waiver of the continuous performance criterion on non-accumulation of external arrears. Based on recent performance, including the prospective completion of prior actions, correctives measures to avoid the accumulation of new external arrears, and the authorities' commitments, staff supports completion of this review, which will make available the equivalent of SDR 71.43 million (about US$ 100.618 million) to Gabon.

Approved By
Zeine Zeidane (AFR) and Yan Sun (SPR)

The discussions on the Third Review under the Extended Arrangement took place in Libreville during November 7–16, 2018. The IMF staff team included Boileau Loko (head), Koffie Nassar and Toomas Orav (All AFR), Gwenaelle Suc (FAD), Jean Portier (MCM), Deirdre Daly (SPR), Marcos Poplawski-Ribeiro (Resident Representative), Judith Lekogo (local economist).
Ms. Félicité Adjahouinou also contributed to the preparation of this report. 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-Fidele Otandault, the National Director of BEAC Denis Meporewa, and other senior government officials, representatives of the private sector, and civil society.

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BACKGROUND

1. **The CEMAC regional economic situation remains challenging, with shortfalls in reserves accumulation.** Regional growth could improve to 2.2 percent in 2018 (1 percent in 2017), largely from a rebound in oil production. However, end-September BEAC's net foreign assets (NFAs) were significantly below projections, caused by delays in external financing, mixed program performances, and slow repatriation of export proceeds. In response to this shortfall, the BEAC took corrective actions, increasing its policy rate from 2.95 to 3.5 percent on October 31st, and the COBAC took action to strengthen enforcement of its net foreign exchange position limit. On October 25 in N'djamena, CEMAC heads of state reiterated their commitment to the Yaoundé summit's regional strategy, and to strengthen their cooperation to restore external and fiscal stability in the region.

2. **Political risks appear to have subsided with the completion of legislative and local elections in October, creating an opportunity for deep reform**. The long-delayed elections held in October 2018 resulted in parliamentary majority for the ruling party. There is now a five-year window in the election cycle, offering a window of opportunity for the authorities to accelerate the implementation of ambitious economic and structural reforms. Gabon's President Bongo experienced health problems in late October. In his absence, the Vice-President is chairing cabinet meetings.

RECENT DEVELOPMENTS AND PROGRAM PERFORMANCE

3. **Macroeconomic conditions are improving** (Table 1). Economic activity is slowly recovering, and the external and fiscal positions have improved somewhat, driven by high oil prices.

- ***Growth.*** Real growth is projected to recover in 2018, but at a slower pace (1.2 percent) than previously expected (2 percent) due to lower-than-expected oil production through Q3 2018[1] and slower execution of the public investment program.

- ***Inflation.*** Inflation increased to 3.4 percent (12-month average) in September 2018 (from 2.7 percent in December 2017) reflecting higher food prices and the pass through of rising international oil prices.

- ***External position.*** The improvement of the trade balance has been driven by stagnant import growth, particularly on consumer goods. Despite improved terms of trade, the export rebound was slightly weaker-than-expected due to disappointing oil volumes and a derailment, which briefly disrupted manganese shipments earlier in the year.

[1] This reflects aging wells, temporary technical and labor disruptions.

- ***Fiscal policy.*** As of end-September 2018, non-oil revenue collection is higher than targeted (Text Table 1, Table 3a–3c), reflecting strengthened revenue administration[2] and the impact of new measures envisaged in the 2018 supplementary budget (Text Table 3). However, expenditures also exceeded programmed levels. Despite some progress, including employment reduction in the Presidency and ministries, savings in the wage bill fell short of the budget target mainly because the authorities have not yet reduced bonuses and salaries (MEFP ¶9). The overrun in goods and services reflects elections-related spending. Delayed implementation of reforms to reduce the number of autonomous agencies due to electoral considerations led to slippages in special accounts. At the same time, both domestically and foreign-financed capital expenditures were higher than targeted. Overall, the non-oil primary deficit as of end-September 2018 (5.4 percent of non-oil GDP) is lower than the adjusted program target (6.0 percent of non-oil GDP).

Text Table 1. Gabon: Fiscal Performance

(Percent of Non-oil GDP)

	Q2 2018		Q3 2018		Q3, Prog.
	2nd Rev.	Act.	2nd Rev.	Act.	vs. Act.
Non-oil revenue	7.4	8.1	10.5	12.7	2.3
Current primary spending	9.4	9.3	12.8	13.1	0.3
Wage bill	5.9	5.8	8.3	8.4	0.1
Goods and services	1.3	1.6	1.7	2.1	0.4
Transfers and subsidies	2.2	1.9	2.8	2.7	-0.1
Domestic capital expenditure	0.2	0.6	0.3	0.9	0.6
Foreign-financed capital expenditure	0.3	0.3	0.9	1.8	0.9
Net lending	1.2	1.2	1.2	1.4	0.2
Special accounts	0.7	0.6	0.4	0.9	0.5
Non-oil primary balance	-4.5	-4.1	-5.3	-5.4	-0.1
Non-oil primary basic balance	-4.2	-3.7	-4.4	-3.7	0.7

Sources: Gabonese authorities and IMF staff estimates

- ***Debt.*** The authorities continued to experience difficulties in remaining current on external debt service, reflecting mainly tight liquidity conditions, lack of coordination between the debt unit and the Treasury, and technical debt servicing challenges related to penalty fees from recently cleared arrears. As of end-November, the authorities reported an accumulation of CFAF 9.4 billion in new external official and guaranteed arrears, of which CFAF 8.5 billion have been cleared.[3] There was also an accumulation of CFAF 5.1 billion of commercial non-guaranteed arrears that the authorities plan to clear by end-December 2018.

- ***Monetary policy and banking sector***. Broad money growth reached 23 percent (year-on-year) at end-September 2018, driven mainly by an increase in private sector deposits (Table 5). Bank lending to the private sector also picked up to 4.7 percent (y-o-y). Macro-financial risks are broadly contained, given that bank solvency appears stable. However, asset quality has continued to slowly deteriorate with nonperforming loans (NPLs) and overdue loans reaching respectively 10 percent and 15 percent of gross loans at end-August 2018 (Table 6). NPL provisioning remains adequate with a coverage ratio of over 90 percent.

[2] Several tax audits that led to the collection of revenues of about 1.3 percent of non-oil GDP. The authorities expect that these operations will help limit fraud and have a permanent impact on revenue collection.

[3] The authorities have provided payment orders for the remaining CFAF 0.9 billion.

4. Performance on program conditionality through end-June 2018 was weak. Two out of the four end-June 2018 quantitative performance criteria (QPCs) were missed (the nonobservances were smaller than the estimates reported to the Board at the time of the second review) as well as the continuous zero ceiling on external arrears (Text Figure 1, MEFP Table 1); The non-observance of these QPCs was waived by the Board at the time of the second review. The other two quantitative performance criteria (for which data were not available at the time of the completion of the second review and waivers of applicability requested) were met. The three indicative targets were missed.

Text Figure 1. Gabon: Program Performance

	Jun. 2018[1]	Sep. 2018[2]
Quantitative Performance Criteria		
Primary non-oil fiscal balance	Not Met	Met
Net government claims on the banking system	Met	Met
Net government claims on the central bank	Not Met	Met
External debt ceiling	Met	Met
Continuous Performance Criterion		
New external payment arrears	Not Met	Not Met
Indicative Targets		
Stock of domestic arrears	Not Met	Not Met
Non-oil tax revenue[3]	Not Met	Met
Social protection spending	Not Met	Not Met

Met Not Met

1/ The targets for the primary non-oil fiscal deficit and net claims on the central bank were estimated not met at the time of the 2nd EFF review (July 24. 2018; CR/18/269).

2/ All end-September 2018 targets are indicative, and not quantitative performance criteria.

3/ The indicative target on non-oil tax revenue will be transformed into a quantitative performance criterion as of end-December 2018.

5. Program performance has improved since the second review. Five out of seven indicative targets for end-September 2018 were met. The targeted reduction in domestic arrears was not met, reflecting weak cash management. Social protection spending was below target due to low execution of public investment and related delays in the public tendering process. The continuous QPC on accumulation of new external arrears by the central government was missed. Program-supported reforms advanced and most structural benchmarks (SBs) were implemented, albeit with some delays (MEFP Table 3). The authorities have fully implemented the package of corrective measures included in the 2018 supplementary budget. In addition, a dedicated committee for monitoring the Fund-supported program has been established to improve program implementation and coordination across the government.

MACROECONOMIC OUTLOOK AND RISKS

6. The near-term outlook is slightly less favorable than envisaged at the time of the second review, reflecting a more protracted fiscal adjustment. GDP growth has been revised to 3.1 percent in 2019 (from 3.4 percent). Although oil sector prospects are improving on the back of the new production that came online in late 2018, fiscal consolidation and slow progress in clearing domestic arrears are continuing to weigh on growth in the near term. Inflation is forecast to reach 4.0 percent this year and 3.0 percent in 2019, as the impact of higher pump prices exit the consumption basket. Public debt is projected to decline to 53.1 percent at end 2019 from 61.7 percent in 2017.

7. The medium-term outlook is still promising. Non-oil growth is expected to increase gradually to around 5 percent over the medium term as agri-business and mining projects reach maturity. Increasing investment in the oil sector should help stabilize production in line with the long-term trend decline in Gabon (of around -1 percent per annum), supporting a gradual rise in overall growth to 4–5 percent in 2022–23. Inflation should remain below 3 percent. The current account is expected to reach surplus from 2020, reflecting the continued expansion of non-oil exports, notably manganese and palm oil, as well as stable oil prices.

8. The risks remain mostly tilted to the downside. The most immediate risk to the outlook is failure to implement the planned fiscal consolidation and critical reforms to preserve macroeconomic stability and support growth. Other downside risks include lower than expected oil production and/or weaker oil prices in world markets, lower global growth, and a marked tightening of global financial conditions. On the upside, medium-term growth could be higher if investors implement all their FDI-financed investment projects, including those related to recent offshore oil discoveries. Given the uncertainty surrounding the scale and timing of these projects, staff's baseline incorporates only part of the expected FDI inflows and economic activity related to existing projects and excludes incipient projects.

POLICY DISCUSSIONS

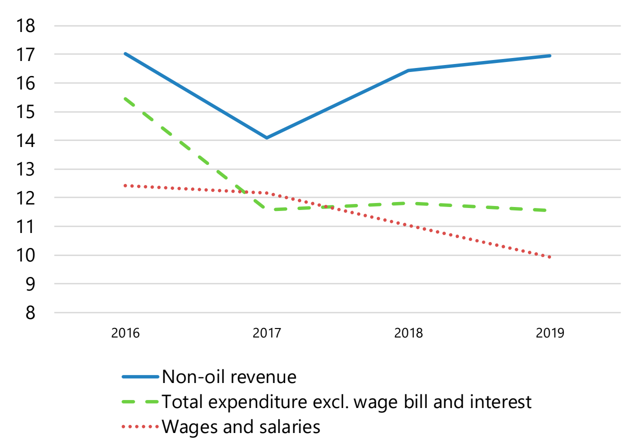
A. Fiscal Policy and Reforms

Discussions centered on the policy stance for the remainder of 2018 and for 2019 and accompanying reforms to further increase non-oil revenue, consolidate progress in public financial management (PFM), and support external stability and growth.

9. Fiscal consolidation is underway. Non-oil primary deficit is expected to fall to 6.4 percent of non-oil GDP in 2018 from 11 percent in 2016, before the beginning of the program. In the first year, the consolidation leaned on non-wage expenditures, but since mid-2018 is increasingly based on the public wage bill measures (MEFP ¶9) and non-oil revenue mobilization. The next phase of fiscal consolidation should seek to consolidate these recent gains and support growth (Text Figure 2).

Text Figure 2. Gabon: Fiscal Effort, 2016–19

(Percent of non-oil GDP)



Policies for the Remainder of 2018.

10. A smaller-than-programmed non-oil primary fiscal deficit is projected in 2018. The non-oil primary balance projection implies an additional adjustment of 0.7 percent of non-oil GDP relative to the previous target under the second review. However, the adjustment will rest predominantly on slower-than expected execution of domestically-financed capital expenditure (Text Table 2) as the end-year non-oil revenue is projected to be broadly in line with the program target. The package of revenue corrective measures in the 2018 supplementary budget has been fully implemented and is contributing to the 2018 targets, but there have been several with delays (Text Table 3), as the unit in charge of monitoring the taxation of public entities was being set up, and economic agents required additional time to bring IT and business processes into compliance with new requirements, in particular to eliminate unjustified tax exemptions. Considering these delays and new technical information, staff and the authorities have reassessed expected yields from revenue measures in 2018 at 0.9 percent of non-oil GDP, roughly 40 percent of the forecast at the time of the second review.

Text Table 2. Gabon: Fiscal Outlook, 2018–19

(Percent of non-oil GDP)

	2018		2019	
	2nd review	Proj.	2nd review	Proj.
Non-oil revenue	16.3	16.4	17.3	17.0
Current primary spending	16.8	16.5	16.5	15.6
o/w Wage bill	10.5	11.0	10.3	9.9
o/w Transfers and subsidies	3.6	3.3	3.5	3.3
Domestic capital expenditure	3.3	1.3	2.8	2.7
Foreign-financed capital expenditure	1.7	2.8	4.4	2.7
Net lending	1.2	1.5	--	0.4
Special accounts	0.2	0.7	--	--
Non-oil primary balance	-7.1	-6.4	-6.4	-4.5
Non-oil primary basic balance	-5.4	-3.6	-1.9	-1.8

Sources: Gabonese authorities and IMF staff estimates

11. Pressing ahead with fiscal structural reforms is essential to meet the end-year fiscal targets, and strengthen transparency, cash management, and budget monitoring.

- Progress has been made in revenue mobilization reforms (MEFP ¶7). VAT regularization was completed in early November, while clearance of half of expired customs procedures and collection of 40 percent of recoverable tax arrears (as of mid-November, 39 percent of 2018 recoverable tax arrears were collected) will be implemented by end-2018 (**proposed reset structural benchmark, end-December 2018,** MEFP ¶8). A new deferred VAT payment mechanism is included in the 2019 draft budget law and importers have been informed of its effectiveness from January 1, 2019.

- All expenditure measures have started and are contributing to program targets, but the planned public-sector salary cuts and the reduction of government agencies were delayed in the context of the October elections.[4] Consolidation of the treasury single account (TSA) will be accelerated with the closure and repatriation of the government's accounts at the

[4] Public-sector salary cuts require a law to modify the civil service status.

deposits and consignments fund as a **prior action** for completion of the third review under the Extended Arrangement.

Text Table 3. Gabon: 2018 Fiscal Measures, Estimated Yields and Savings

(Billions of CFA francs; Percent of Non-oil GDP)

	Estimated Yield/Saving			
	CFAF billions		Percent of Non-oil GDP	
	2nd Rev.	Proj.	2nd Rev.	Proj.
Total Revenue Measures	140.4	58.8	2.23	0.93
Clearance of expired suspensive customs procedures and warehousing arrangements	22.0	1.4	0.35	0.02
Elimination of the "*programme de lutte contre la vie chere*"	21.0	1.3	0.33	0.02
Revision of taxation modalities of manganese and wood exports (actual cost)	5.9	6.3	0.09	0.10
Taxation of public entities PIT	30.0	1.0	0.48	0.02
Strenghtening of quality and frequency of CIT controls	10.0	24.0	0.16	0.38
Taxation of luxury vehicles	1.3	1.1	0.02	0.02
Taxation of fund transfers[1]	3.0	3.0	0.05	0.05
Revised rates of property transfers taxes	4.0	6.8	0.06	0.11
Revised rates of excise taxes	16.4	9.4	0.26	0.15
Census of tax exemptions and elimination of unjustified exemptions	20.5	0.5	0.33	0.01
Implementation of the withholding personal income tax (5 percent) to customs	2.1	2.1	0.03	0.03
Broadening the tax basis of the single combined tax for activities with a turnover of less CFAF 35,000 (CIT)	4.2	1.9	0.07	0.03
Total Expenditure Measures	132.7	81.0	2.11	1.28
Reduction of the wage bill	75.4	34.6	1.20	0.55
Reduction of non-social transfers by strenghtening financial oversight on units and agencies beniffiting from these transfers	3.2	24.2	0.05	0.38
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 reducing the number of central government's agencies	54.1	22.2	0.86	0.35

Sources: Gabonese authorities and IMF staff estimates

1/ Given its possible impact on exchange restriction, implementation of this measure was not recommended.

12. **The authorities have started to implement timebound corrective measures to prevent the accumulation of new external arrears**. First, they have decided to immediately close all public accounts at the state depository corporation and to repatriate the deposits in the TSA, as a prior action (MEFP ¶15). This consolidation of the TSA will help relieve liquidity constraints and ensure sufficient resources to remain current on debt service. Second, with the support of the recent IMF technical assistance mission, the authorities are taking measures to improve cash liquidity management. In this context, the authorities will (i) complete the 2019 treasury plan and attach it to the 2019 budget law, (ii) develop weekly cash flow forecasts, starting in early 2019, and (iii) organize monthly transfer of data related to debt service from the Debt Department to the Treasury, starting early 2019 (MEFP ¶14). The authorities intend to request a long-term expert to support the implementation of these measures.

13. The authorities should also adhere to their domestic arrears clearance plan (Text Table 4). Slower clearance of arrears or accumulation of new domestic arrears could jeopardize fiscal consolidation objectives, undermine confidence, weaken the banking system and constrain credit growth.

14. Financing needs for the remainder of 2018 are fully covered (Text Table 5). Financing needs are slightly higher than expected because of lower than anticipated oil revenue. At the same time, the World Bank budget support of US$ 222.7 million (3.8 percent of GDP) is now expected to be disbursed early January 2019, due to delays in meeting the triggers, while the disbursement of African Development Bank budget support is lower than expected (€100 million versus €200 million originally envisaged). In this context, the authorities have further cut spending in goods and services and other non-priority spending. To meet remaining financing needs, the authorities are relying on external borrowing.[5] They have contracted a one-year maturity external bridge loan of US$300 million. The authorities are committed to repay the bridge loan as soon as possible.

Text Table 4. Gabon: Domestic Debt Stock by Components, 2016–19

(Percent of GDP)

	2016	2017	2018 Proj.	2019 Proj.
Total Domestic Debt	26.8	23.9	19.6	16.5
Domestic debt outstanding	19.6	18.8	16.7	14.7
Regional securities markets	3.5	4.3	4.6	4.7
Treasury bills	2.3	2.3	2.2	2.1
Bank loans (over the counter)	4.3	4.3	3.1	2.2
Statutory advances from BEAC	5.4	5.2	4.8	4.5
Moratorium debt	3.8	2.5	2.0	1.2
Other domestic debt	0.2	0.2	0.1	0.0
Total domestic arrears	7.2	5.2	2.9	1.8
Exceptional budgetary float	3.0	1.4	0.0	0.0
VAT arrears	4.2	3.8	2.9	1.8
Memo Item				
Club de Libreville		3.3	2.1	1.3

Source: Gabonese authorities.

Text Table 5. Gabon: Financing of the Fiscal Deficit, 2018

(Percent of GDP)

	2018		
	Prog. 1/	Proj.	Difference
Overall fiscal deficit (cash basis)	**0.3**	**0.6**	**0.4**
Other financing needs	7.7	7.6	-0.2
Amortization (including arrears)	5.5	5.4	-0.1
BEAC	0.3	0.9	0.5
Other	1.9	1.4	-0.6
Total financing needs	**8.0**	**8.2**	**0.2**
Identified sources of financing	**3.6**	**4.0**	**0.4**
External	1.1	1.8	0.7
Domestic	2.5	2.2	-0.3
T-bill issuance	1.6	1.6	0.0
Privatization receipts	0.4	0.4	0.0
Recovery of domestic tax arrears	0.5	0.2	-0.3
Financing gap	**4.4**	**4.2**	**-0.2**
Exceptional external financing	3.2	3.0	-0.2
Multilateral	2.7	2.5	-0.2
African Development Bank	1.4	0.7	-0.7
World Bank	1.3	0.0	-1.3
Other (Africa EXIM Bank)	0.0	1.8	1.8
Bilateral	0.5	0.5	0.0
Residual financing needs	**1.2**	**1.2**	**0.0**
IMF-EFF	1.2	1.2	0.0

Sources: Gabonese authorities; and Fund staff estimates and projections.
1/ Staff report for the Second Review of the Extended Arrangement Under the Extended Fund Facility (July 24, 2018; CR/18/269).

15. Contingency measures aim to address financing risks. Considering the impact of the delayed measures, contingency measures were taken to safeguard the deficit target while protecting priority spending, including the automatic adjustment mechanism envisaged in the 2018 supplementary budget. Any unanticipated revenues should be saved to rebuild fiscal buffers.

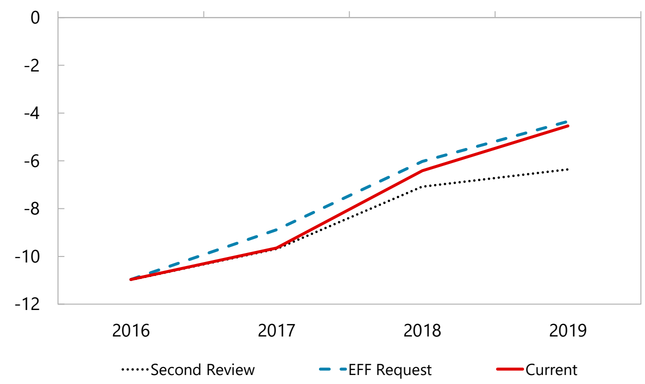
[5] Using deposits could reduce CEMAC's level of international reserves and heighten external vulnerability.

Policies for 2019.

16. The 2019 budget aims at consolidating recent gains and improving the structure of the budget to support sustained adjustment (Text Figure 3). The priority should remain measures to enhance revenue mobilization, improve spending composition by containing non-priority spending, strengthen economic governance and the quality of public spending, reduce corruption, and improve cash management. The 2019 adjustment aims to bring the fiscal adjustment back in line with the initial program, and mainly relies on the full impact and deepening of measures started in 2018.

Text Figure 3. Gabon: Non-oil primary fiscal balance

(Percent of Non-Oil GDP, 2016–19)



Sources: Gabon authorities and IMF staff estimates

17. The 2019 budget targets an overall deficit of 4.5 percent of non-oil GDP, down from 6.4 percent in 2018.

- Non-oil revenue is projected to reach 17.0 percent of non-oil GDP in 2019, up from 16.4 percent of non-oil GDP in 2018. This increase reflects deepening 2018 corrective revenue measures (Text Table 3), including the full elimination of tax exemptions, and the adoption of new measures (Text Table 6, MEFP ¶19).[6] In addition, continued improvements in revenue administration will be needed to achieve the revenue target. Tax evasion will be curbed through improved data sharing between tax and customs administrations

Text Table 6. Gabon: 2019 Fiscal Measures, Estimated Yields and Savings

(Billions of CFA francs; Percent of Non-Oil GDP)

	Estimated Yield/Saving	
	CFAF billions Proj.	Percent of Non-oil GDP Proj.
Total Revenue Measures	147.7	2.18
Previous measures		
Elimination of the "*programme de lutte contre la vie chere*"	19.7	0.29
Taxation of public entities PIT	3.0	0.04
Elimination of unjustified tax exemptions or reduced rates	62.0	0.92
Strenghtening of quality and frequency of CIT controls	20.0	0.30
Strenghtening of quality and frequency of VAT controls	16.0	0.24
New measures /1		
Broadening of property tax basis	5.0	0.07
Tax on household waste	12.0	0.18
Combined collection of PIT levy and customs tariffs	10.0	0.15
Total Expenditure Measures	138.2	2.04
Reduction of the wage bill	25.4	0.38
Reduction of net lending	67.8	1.00
Reduction of special accounts' deficits	45.0	0.44
Authorities Proposed Other Revenue Measure		
Tax on civil servants in higher salary brackets /2	30.0	0.44

Sources: Gabonese authorities and IMF staff estimates

1/ New measures to be introduced in 2019
2/ The 2019 draft budget law includes the creation of this tax, but needs to be approved by the Constitutional Court.

[6] The proposed 2019 budget includes a measure to increase the tax on wire transfers, which poses a potential intensification of an exchange rate restriction. Staff has not incorporated the measure into the yield estimates. The authorities indicated they will consider means to eliminate this measure.

and strengthened monitoring of VAT taxpayers and payroll tax withholding. Customs compliance will be enhanced through full implementation of upfront payments of customs debts and development of online payment processes and implementation of ASYCUDA World

- Current spending is projected to fall by 0.8 percentage points of non-oil GDP to 19.4 percent, reflecting an acceleration in wage bill reforms (MEFP ¶9) and improved control on non-priority spending. The closing of several public agencies will help lower special accounts deficits.

- Domestically-financed capital spending is forecast at 2.7 percent of non-oil GDP, up from 1.3 percent of GDP.

- With oil revenue expected at 6.9 percent of GDP, the overall balance (cash basis) is projected at 1.5 percent of GDP. Financing needs will be covered through external financing (1.8 percent of GDP) and domestic financing (1.8 percent of GDP). This will support a reduction of total public debt to 53.0 percent of GDP.

18. Staff viewed the 2019 fiscal policy stance as appropriate and in line with the program but highlighted several implementation risks. Weak administrative capacity and coordination could trigger delays in reform implementation and pose a challenge, particularly for meeting the revenue target. In addition, despite some progress, the financial position of several public agencies and enterprises remains precarious, and unless improved, it will continue to represent significant contingent liabilities for the government. To safeguard fiscal objectives, the automatic adjustment mechanism envisaged in the 2018 supplementary budget and the associated level of contingency reserves[7] are being maintained and increased in the 2019 budget (MEFP ¶9). Should risks materialize, the authorities should aim to preserve a high-quality adjustment, preserving investment and pro-poor spending while targeting cuts to low priority goods and services and non-social transfers. For an additional backstop, the authorities have identified possible privatization operations that are expected to occur in 2019 as a contingent reserve (totaling CFAF 26 billion).

19. Advancing reforms to strengthen PFM will support the fiscal strategy.

- The authorities should operationalize and strengthen reforms to improve the oversight of central government agencies and the transparency of their fiscal reporting (MEFP ¶25). The authorities are committed to expand these reforms to state-owned enterprises, particularly those involved in the oil sector to assure effective and transparent collection of oil revenues. To that end, they commit to publish a report disclosing the volume and value of major oil assets, as well as the volume and value of the previous year's sales and fiscal

[7] The 2018 supplementary budget included contingency reserves of 20 percent for goods and services, 15 percent for transfers, 12 percent for capital spending, and 10 percent for other expenditure. Staff advised increasing capital spending reserves to 16 percent. Appropriations placed in reserve are unavailable until the reserve is released.

revenue (**proposed new structural benchmark, end-June 2019**) and to apply for EITI membership (**proposed new structural benchmark, end-September 2019**) (MEFP ¶23).

- The government will eliminate non-compliant earmarking of revenues to improve the transparency and the efficiency of budget execution (**proposed new structural benchmark, end-October 2019**).
- Efforts to better prioritize investment projects and increase transparency of public procurement will be accelerated.
- The consolidation of the Treasury Single Account (TSA) will be concluded through closure of all central government accounts opened with commercial banks (**proposed new structural benchmark, end-March 2019**).

B. Financial Sector

20. Distressed state-owned banks and high non-performing loans should be addressed. The three public banks in financial distress are now under liquidation.[8] However, their financial situation continues to deteriorate and weigh on the budget.[9] While the banking sector appears broadly sound and profitable, the NPL ratio is relatively high and still increasing. The authorities are committed to:

- Facilitate an orderly liquidation process (MEFP ¶29), including by nominating government representatives to a liquidation support group to support each liquidator in ensuring a swift and effective liquidation process (**proposed new structural benchmark, end-January 2019**). The liquidator should lead and suggest the composition of the group (composed exclusively of individuals with no conflicts of interest).
- Adopt and monitor a credible strategy and an action plan to reduce overdue loans (**proposed reset structural benchmark, end-March 2019**) (MEFP ¶28). This should include a financial component focused on the clearance of overdue loans in the short-term, including through the repayment of government expenditure arrears, as well as longer-term reforms to strengthen the legal and institutional frameworks, judicial processes, and collateral registries for companies and sureties.

21. The sale of the non-strategic stake in BICIG, the third largest Gabonese bank, should be initiated promptly. The state is in the process of acquiring a new bank from the market and an application for transaction approval has been submitted to the COBAC. Should the acquisition gain approval, the authorities shall initiate the sale process of the state's shareholding within three months (MEFP ¶30). In case the COBAC does not approve the application, the state shall join the

[8] In September 2018, the regional supervisor's (COBAC's) decided to withdraw BGD's license.

[9] The fiscal cost for the resolution of the banks amounts to some 1 percent of GDP, which has been incorporated into the fiscal program.

main shareholder in selling its existing shareholding, so that the new strategic investor can enjoy a controlling majority in the bank.

22. CEMAC's reserve coverage remains short of appropriate levels. Consistent with the objective to rebuild the BEAC's international reserves, the authorities agreed to stop providing new exemptions from compliance with the forex regulations, including the obligation to repatriate and surrender FX earnings. The authorities will also ensure that customs administration enforce the requirement to have all export transactions done through resident banks. The legislation on the repatriation and surrender of export receipts will be revised in line with the new revised draft legislation prepared by BEAC.

C. Distributional Issues

23. The authorities reiterated their commitment to improving the execution and reporting of social spending. Priority social spending was lower than the program target at end-September 2018. The authorities explained that this was largely due to low execution of investment expenditure in the education sector and transfers to social protection. Budget allocations for these two sectors were increased in the July 2018 Supplementary Budget, but given the lengthy public tendering process, priority capital spending in social ministries (about 23 percent of total priority social spending) was delayed. However, the authorities expect to accelerate the execution of these expenditures by end-December 2018. The authorities also noted that social spending as defined under the program does not accurately capture their efforts to protect vulnerable groups (MEFP ¶27). In collaboration with the World Bank, they have set up a Social Expenditure Committee and are working to better identify and target vulnerable groups based on the recently completed household survey.

PROGRAM MODALITIES AND FINANCING ASSURANCES

24. Program modalities. Program monitoring will continue to be guided by semi-annual reviews, semi-annual and continuous performance criteria and indicative targets, and structural benchmarks. The attached Letter of Intent (LOI) and Supplemental Memorandum of Economic and Financial Policies (SMEFP) describe the authorities' progress in implementing their economic program. The updated program conditionality is presented in the MEFP Tables 1 and 2. A revised Technical Memorandum of Understanding (TMU) is also attached. The authorities implemented one prior action, and are committed to implementing the two remaining prior actions for the completion of this review (MEFP Tables 3 and 4):

- Quantitative performance criteria (QPCs) for end-December 2018 are proposed to remain unchanged except for the external debt PC which is proposed to be modified to be monitored on a disbursement basis in line with understandings reached. Staff proposes modification of all indicative targets for end-March 2019 and to establish new QPCs for end-June (all previously indicative targets). in line with revised quarterly projections.

- The authorities are requesting a waiver of nonobservance for the continuous performance criterion on external arrears accumulation. Staff assesses that the waiver of non-observance can be recommended to the Board given the timebound corrective actions that the authorities have started to take to improve debt and cash management, including steps taken to establish a Treasury Single Account and implement the recommendations of the November 2018 IMF technical assistance mission.

- The authorities committed to the following prior actions: (i) closure of all central government accounts opened with the deposits and consignments fund and repatriate their balances to the Treasury Single Account (pending); (ii) submission to Senate of a 2019 budget in line with program objectives (pending); and (iii) regularization of tax situation of importers not subject to VAT, but whose transactions exceed the VAT liability threshold (completed).

- The report proposes to reset to end-December 2018 the structural benchmark on the collection of 40 percent of recoverable tax arrears, as delays in the government's repayment of domestic arrears has affected the authorities' efforts to implement this measure. The report also proposes to reset for end-April 2019 the structural benchmark on the audit of 2015 and 2016[10] domestic arrears. The government has now signed the contract that was selected via public tender in March 2018. Finally, the report proposes to reset the structural benchmark on a strategy to clearance of loans in arrears in the banking sector to end-March 2019, providing additional time to complete a reform that requires collaboration between national and regional authorities.

- The report proposes several new SBs. In line with the new framework on governance, several of the reforms under the program—including reforms to strengthen PFM, oil revenue transparency, and the judicial system, as well as ending exemptions from compliance with forex regulations—should help strengthen governance and reduce vulnerabilities to corruption.

25. Gabon has outstanding sovereign external arrears to both official bilateral and commercial creditors. The authorities are in the process of clearing the external arrears with respect to official bilateral creditors and plan to complete clearance before the Executive Board meeting. The Gabonese authorities have also indicated their intention to resolve the remaining CFAF 37.0 billion in commercial arrears by the end of the year (CFAF 37.8 billion at the time of the second review), which arose due to past and ongoing fiscal difficulties. In respect of external commercial arrears and 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, indicated 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

[10] The authorities have decided to add the audit of 2017 arrears.

policies, the Fund may provide financing to Gabon notwithstanding its external arrears to commercial creditors.

26. The BEAC and COBAC have pursued the implementation of their policy commitments and provided updated policy assurances in support of CEMAC countries' programs. In response to the lower NFA accumulation at end-June 2018 the BEAC and COBAC took corrective actions, with the BEAC increasing its policy rate and the COBAC strengthening the enforcement of its banks' net open position limits regulations. Consistent with the June 2018 policy assurances, by end-year the BEAC will also submit for adoption new foreign exchange regulations to the UMAC ministerial committee and make the new monetary policy framework fully operational. The updated policy assurances present new projections for regional NFAS, with the end-2018 projection revised downward but the end-2019 projection broadly unchanged. To achieve these projections, the BEAC reiterated its commitment to implement an adequately tight monetary policy, while member states will implement adjustment policies in the context of IMF-supported programs. Starting in the first half of 2019, semi-annual consultations between the member states, the regional institutions, and IMF staff will be held to review the regional strategy implementation and, if necessary, identify and adopt any additional corrective measures at the national and/or regional policy levels to allow the continuation of (or approval of new) IMF financial support as part of the IMF-supported programs with CEMAC members. These policy assurances are critical for the success of Gabon's program as they will help bolster the region's external sustainability, and hence Gabon's. The BEAC also continues to implement the remaining recommendations of the 2017 safeguards assessment. BEAC's full transition to IFRS is progressing broadly as planned, and steps are being taken to accelerate the adoption of revisions to the secondary legal instruments to align these with the BEAC Charter, in consultation with IMF staff.[11]

27. The program remains fully financed and Gabon's capacity to repay remains adequate, but subject to significant downside risks.

- Financing needs for the next twelve months will be met by a combination of external borrowing, budget support and Fund financing, and there are firm commitments in place. There are good prospects to achieve the projected financing through the end of the program (Table 4a and 4b), provided that the authorities implement their fiscal consolidation program as envisaged.

- Repayments under the Extended Arrangement will remain less than 0.4 percent of GDP through the end of the projection period (2023), and peak at 1.2 percent of exports in 2024 (Table 7).

[11] CEMAC—Staff Report on the Common Policies of Member Countries, and Common Policies in Support of Member Countries' Reform Programs.

Text Table 7. Gabon: Proposed Structural Conditionality for 2018–19			
Measures	**Previous Timeframe**	**Status**	**Proposed Timeframe**
Prior Actions			
Submission to Senate of a FY2019 budget and supporting measures, consistent with the budget objective of the government's economic program supported by the IMF.		Pending	Prior Action
Regularize tax situation of importers not subject to VAT, but whose transactions exceed the VAT liability threshold.	End-Jul. 2018	Done	Prior Action
Close central government's accounts opened at the CDC and repatriate balances to the TSA.	End-Sep. 2018	Pending	Prior Action
Pending Structural Benchmarks			
Publishing a new decree establishing harmonized statutes for public administrative institutions and repealing earlier provisions.	End-Sep. 2018	Decree signed by Budget Minister and validated by the State Council; President's signature pending	
Clear 50 percent of expired suspensive customs procedures.	End-Dec. 2018		No change
Reset Structural Benchmarks			
Collect 40 percent of recoverable tax arrears.	End-Sep. 2018	39 percent of recoverable tax arrears collected as of mid-November	End-Dec. 2018
Complete an independent audit of 2015, 2016, and 2017 domestic expenditure arrears.	End-Sep. 2018		End-April. 2019
Develop a strategy for the clearance of loans in arrears	End-Oct. 2018		End-Mar. 2019
New Structural Benchmarks			
Nominate representatives to the liquidation support group of each state bank in liquidation			End-Jan. 2019
TSA consolidation through closure of all central government accounts opened with commercial banks			End-Mar. 2019
Publish a report disclosing the volume and value of major oil assets, as well as the volume and value of the previous year's sales and fiscal revenue.			End Jun. 2019
Submit application for EITI membership to EITI Secretariat			End-Sep. 2019
Eliminate noncompliant earmarking of revenues and limit it to exceptions provided for by law.			End-Oct. 2019

STAFF APPRAISAL

28. The CEMAC regional strategy has helped to avert an immediate crisis but continues to face headwinds. Uneven program implementation, insufficient repatriation of export proceeds and delays in securing IMF-supported programs with two-member countries have contributed to the underperformance of reserves accumulation, despite higher-than-projected oil prices. Regional socio-political and security conditions remain difficult, and growth weak. However, the BEAC and COBAC have made progress in delivering on their policy assurances, including by further tightening liquidity conditions to support regional reserves.

29. Staff welcomes the Gabon authorities' efforts to improve program implementation and contribute to the regional effort to restore fiscal and external sustainability, despite challenging macroeconomic conditions. Since the second review, the authorities have taken important and difficult actions to keep the program on track despite the October legislative elections. However, the economic recovery remains fragile and further fiscal consolidation and decisive reforms are needed to achieve strong and sustainable growth thereby raising living standards.

30. Staff urges the authorities to stay the course on fiscal consolidation. This will require steadfast implementation of measures to boost non-oil revenue and contain non-priority spending while protecting social spending and infrastructure. It will be important to adhere strictly to the targets on social protection spending to mitigate the potential impact of fiscal consolidation on the poor. Risks of revenue shortfall are still high. If these risks materialize, the authorities should be ready to restrain current spending to stick to the deficit target, using the automatic adjustment mechanism envisaged in the budget laws.

31. Fiscal structural reforms to strengthen fiscal transparency and improve cash management will underpin fiscal discipline. Enhancing budgetary execution, aligning expenditure commitment and cash flow plans, setting-up the Treasury Single Account, and enhancing oil revenue management will strengthen transparency, cash management, and budget monitoring. Continued efforts are also needed to strengthen debt management and improve processes to service debt, including through regular meetings between the Treasury and Debt Units to discuss weekly cash flow plans to prevent the accumulation of domestic and external arrears. Efforts should be pursued to improve the oversight and transparency of government agencies and state-owned enterprises.

32. Reducing banking sector vulnerabilities is essential for financial stability and to support growth. Accelerating the liquidation of the three distressed banks and expeditiously tackle the NPL overhang will support financial stability, promote credit to the private sector, and growth.

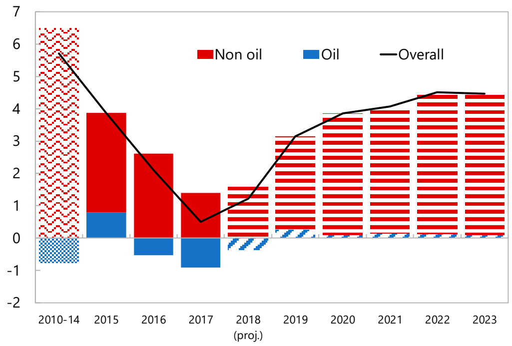
33. Ensuring external stability is critical for growth. Continued fiscal consolidation and tangible actions to ensure the repatriation of forex by exporters (including national oil companies) will help rebuild the BEAC's international reserves and buffers. The latter will require revising the legislation on the repatriation and surrender of export receipts, in line with the new revised draft legislation prepared by BEAC. The authorities should aim at adopting the national legislation in 2019.

34. Based on Gabon's performance under the program, good progress toward the end-December regional policy assurances and corrective actions to address end-June NFA underperformance, staff supports the authorities' request for the completion of the third review under the Extended Fund Facility. Staff also recommends granting a waiver for the non-observance to the continuous performance criterion on external arrears based on corrective measures to improve cash and debt management. Staff proposes modifications to the external debt performance criterion and end-March 2019 indicative targets and to set quantitative performance criteria for end-June 2019. Staff also proposes that completion of the fourth review of the Extended Arrangement be conditional on the implementation of critical policy measures at the union level, as established in the December 2018 union-wide background paper.

Figure 1. Gabon: Selected Economic Indicators and Outlook

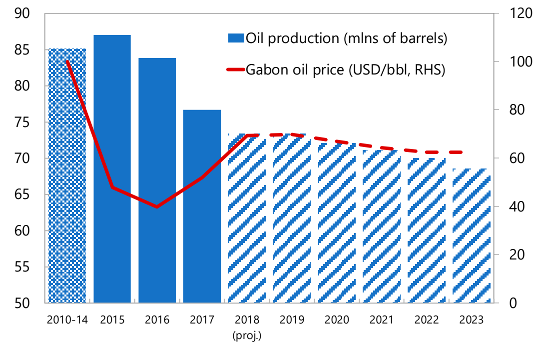
Growth fell sharply due to the oil price shock and the related fiscal consolidation, but is now recovering thanks to new export sectors ...

Gabon: Contribution to real growth
2010–23, in percent



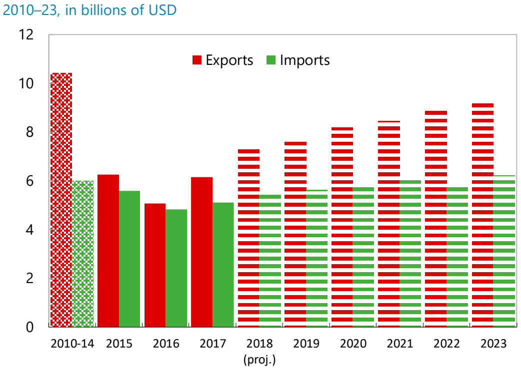
... while higher oil prices are helping to stabilize oil sector production.

Gabon: Oil production volume and price
2010–23



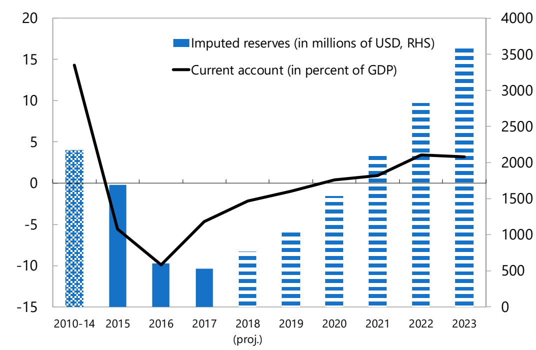
Higher oil prices and increasing mining activity have also helped bolster exports ...

Gabon: Trade
2010–23, in billions of USD



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

Gabon: Current account and imputed reserves
2010–23



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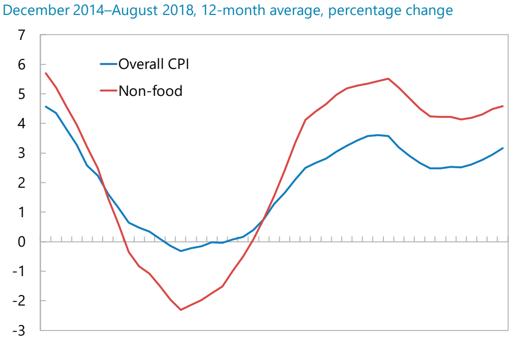
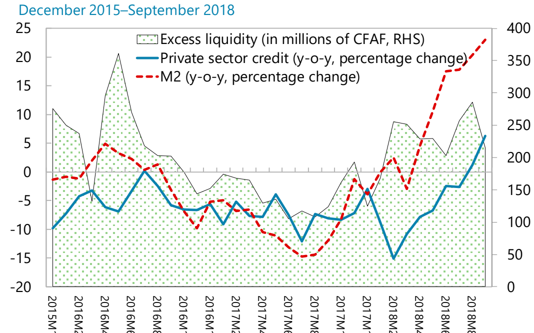
Inflation has picked up in 2018 with the pass-through of higher international oil prices.

Gabon: Consumer price inflation
December 2014–August 2018, 12-month average, percentage change



Monetary liquidity is improving, but credit growth remains low due to weak economic confidence.

Gabon: Monetary aggregates
December 2015–September 2018

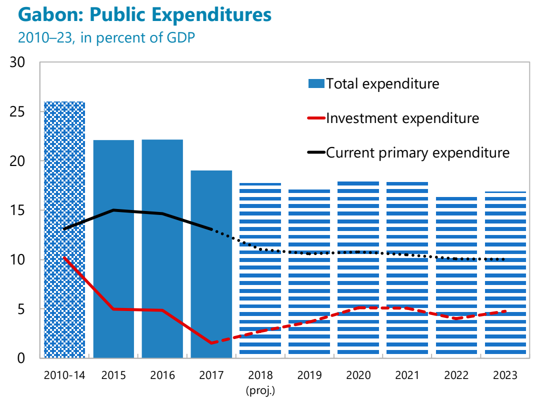


Source: BEAC

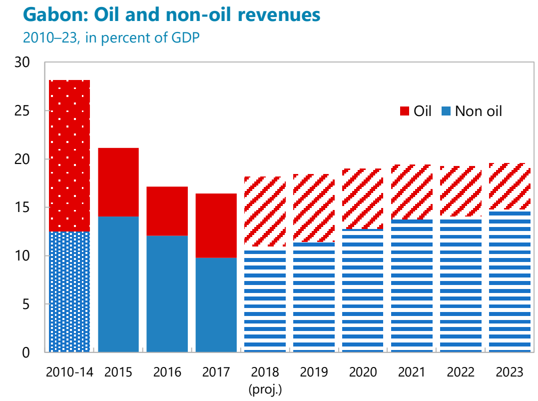
Sources: Gabonese authorities and IMF staff estimates.

Figure 2. Gabon: Fiscal Indicators and Outlook

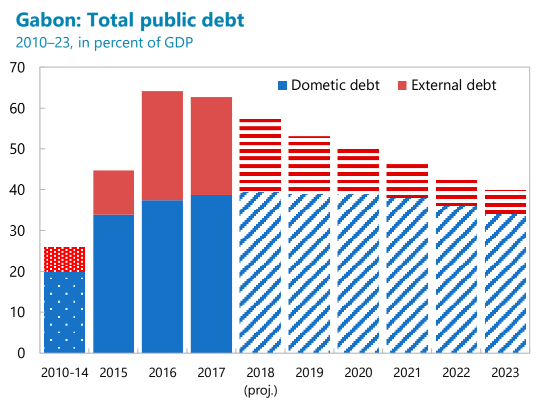
In 2018, the focus of spending adjustment started to switch from public investment to current spending …



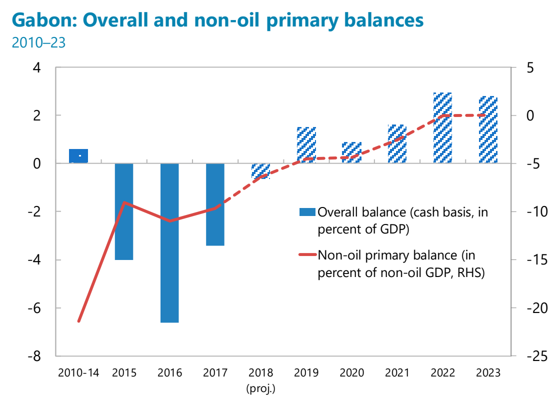
… complemented by an increasing focus on non-oil revenue mobilization …



… helping to contain the level of public debt.



The overall and non-oil primary balances have continued to adjust, but the consolidation will need to be sustained for a trend decline in public indebtedness.



Sources: Gabonese authorities and IMF staff estimates.

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

	2015	2016	2017	2018		2019		2020	2021	2022	2023
			Prel.	Prog. 1/	Proj.	Prog. 1/	Proj.	Proj.		Proj.	
				(Annual percent change, unless otherwise indicated)							
Real sector											
GDP at constant prices	3.9	2.1	0.5	2.0	1.2	3.4	3.1	3.9	4.1	4.5	4.5
Oil	4.0	-2.7	-4.8	0.8	-2.0	0.6	1.6	0.5	0.9	0.8	0.6
o/w primary oil	8.6	-3.7	-8.5	0.0	-4.3	-1.5	0.0	-1.8	-1.3	-1.6	-2.1
Non-oil	3.8	3.3	1.7	2.3	1.9	4.0	3.5	4.6	4.7	5.2	5.2
GDP deflator	-8.9	-4.3	3.8	7.1	8.0	0.0	2.4	0.4	0.3	0.2	1.1
Oil	-20.2	-11.9	14.5	18.5	21.4	-0.9	1.4	-3.6	-1.8	-1.7	0.3
Primary oil	-24.3	-16.1	19.3	28.1	33.4	-0.7	1.9	-5.4	-4.5	-3.6	-0.4
Consumer prices											
Yearly average	-0.1	2.1	2.7	2.8	4.0	2.5	3.0	2.5	2.5	2.5	2.5
End of period	-1.2	4.1	1.1	2.8	4.0	2.5	3.0	2.5	2.5	2.5	2.5
External sector											
Exports, f.o.b.	-26.8	-19.2	22.9	21.1	14.3	4.4	7.7	4.1	1.8	3.3	3.6
Imports, f.o.b.	-0.4	-21.3	6.2	8.6	2.6	2.3	4.5	2.3	3.2	-1.7	6.8
Terms of trade (deterioration= –)	-44.9	-10.2	28.0	29.3	28.1	-2.2	0.2	-6.7	-6.3	-5.1	-2.2
				(Percent of GDP, unless otherwise indicated)							
Overall fiscal balance (commitment basis)	-1.0	-5.0	-2.6	0.5	0.5	0.5	1.3	0.8	1.6	2.9	2.7
Primary fiscal balance (commitment basis)	1.1	-2.7	-0.1	3.1	2.9	3.1	3.9	3.2	3.9	5.1	4.8
Overall fiscal balance (cash basis)	-4.0	-6.6	-3.4	-0.3	-0.6	0.5	1.5	0.9	1.6	2.9	2.8
Non-oil primary balance (in percent of non-oil GDP)	-9.0	-11.0	-9.7	-7.1	-6.4	-6.4	-4.5	-4.4	-2.5	0.0	0.0
Non-oil primary basic balance (in percent of non-oil GDP) 2/	-5.8	-6.9	-8.6	-5.4	-3.6	-1.9	-1.8	0.1	1.6	2.9	3.2
Gross government deposits in BEAC	6.1	2.5	3.1	3.4	3.8	4.4	4.7	5.3	6.0	8.0	10.7
Total public debt 3/	44.7	64.2	62.7	56.0	57.3	54.4	53.0	50.2	46.6	43.2	39.9
External public debt (including to the IMF)	33.9	37.4	38.7	38.0	39.4	40.3	39.1	39.0	38.1	36.1	34.1
Domestic public debt	10.8	26.8	24.0	18.0	17.9	14.1	13.9	11.2	8.5	7.1	5.9
o/w statutory advances from BEAC	8.0	7.7	7.5	4.8	4.8	4.6	4.5	4.3	4.2	3.5	2.9
				(Percent change, unless otherwise indicated)							
Money and credit											
Credit to the economy	-9.8	-5.6	-3.0	-6.9	6.1	7.6	6.9	12.6	13.9	14.6	16.0
Broad money	-1.4	-5.2	-3.9	9.2	14.3	13.4	12.9	15.8	14.4	6.4	6.7
Velocity ratio of Non-oil GDP over broad money	2.6	2.8	3.2	3.0	2.8	2.9	2.8	2.7	2.5	2.4	2.2
				(Percent of GDP, unless otherwise indicated)							
Gross national savings	29.2	24.3	26.0	28.9	28.4	30.7	30.1	32.5	32.0	32.8	33.0
Gross fixed investment	34.8	34.2	30.7	30.3	30.5	31.1	31.1	32.1	31.1	29.3	29.9
o/w private	29.8	29.3	29.1	27.0	27.8	26.2	27.4	27.0	26.0	25.3	25.1
public	5.0	4.9	1.5	3.3	2.7	4.9	3.7	5.1	5.1	4.0	4.8
Current account balance	-5.6	-9.9	-4.7	-1.5	-2.2	-0.4	-1.0	0.4	1.0	3.4	3.2
excl. large agri-industry projects 4/	-3.6	-7.8	-2.3	1.2	0.5	1.5	1.0	1.3	0.5	1.9	0.0
CEMAC Foreign Reserves											
(US$ billions, end-of-period)	10.3	5.0	5.8	7.5	6.5	9.1	8.5	10.2	11.8	13.3	14.5
(in months of extrazone imports)	4.3	2.3	2.4	3.1	2.6	3.7	3.3	3.9	4.2	4.9	5.3
				(CFA francs billion, unless otherwise indicated)							
Memorandum items											
Nominal GDP	8,503	8,311	8,669	9,476	9,475	9,802	10,011	10,441	10,899	11,410	12,052
Nominal non-oil GDP	5,676	5,885	6,024	6,289	6,328	6,625	6,772	7,302	7,787	8,328	8,941
National currency per U.S. Dollar (average)	591	593	581	..	..	..	..	..	..	..	..
Oil prices (Brent, U.S. Dollar/BBL)	51	43	54	73	72	72	72	69	67	65	64

Sources: Gabonese authorities and IMF staff estimates and projections.

1/ Staff report for the Second Review of the Extended Arrangement Under the Extended Fund Facility (July 24, 2018; CR/18/269).

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, 2015–20

	2015	2016	2017	2018		2019		2020
			Est.	Prog. 1/	Proj.	Prog. 1/	Proj.	Proj.
				(Billions of CFAF)				
Current account	-474	-823	-406	-138	-204	-40	-99	43
Goods (net)	1,318	1,107	1,624	2,171	2,051	2,304	2,263	2,388
Export of goods (fob)	3,315	2,679	3,294	3,986	3,764	4,161	4,054	4,220
Hydrocarbons	2,494	1,941	2,234	2,813	2,678	2,757	2,725	2,558
Timber	293	335	381	387	414	402	459	551
Manganese	421	279	518	575	461	659	528	575
Other	108	125	161	211	211	342	342	536
Import of goods (fob)	-1,997	-1,572	-1,670	-1,815	-1,713	-1,858	-1,791	-1,833
Petroleum sector	-242	-228	-263	-331	-315	-324	-321	-316
Other	-1,755	-1,344	-1,407	-1,484	-1,398	-1,533	-1,470	-1,516
Services (net)	-930	-964	-1,011	-1,041	-999	-1,095	-1,063	-1,094
Exports	382	325	285	299	284	309	298	308
Imports	-1,312	-1,289	-1,295	-1,340	-1,283	-1,404	-1,362	-1,402
Income (net)	-718	-785	-833	-1,074	-1,062	-1,054	-1,103	-1,064
Current transfers (net)	-143	-181	-186	-194	-193	-195	-196	-187
Capital account	0	0	0	0	0	0	0	0
Financial account	247	181	-133	-74	205	51	-12	177
Direct investment (net)	586	736	785	864	870	1,013	1,031	922
Portfolio investments (net)	-23	0	0	0	0	0	0	0
Other investment assets and liabilities (net)	-316	-556	-918	-938	-665	-962	-1,042	-745
Medium- and long-term transactions	-36	-84	-244	-268	-29	-7	-293	19
o/w Net Arrears Accumulation		165	-40	-123	-123			
Short term transactions	-280	-471	-674	-670	-636	-956	-750	-764
Errors and Omissions	4	0	0	0	0	0	0	0
Overall balance	-223	-643	-539	-212	1	11	-111	220
Financing	223	643	539	212	-1	-11	111	-220
Bank of Central African States	223	643	51	-90	-115	-178	-177	-249
Change in net reserve assets (- is an increase)			-60	-202	-227	-290	-290	-277
IMF-EFF flows			111	112	112	112	113	28
Financing Gap	0	0	488	302	114	167	289	29
Of which:								
Bilateral			49	49	49	49	49	0
Multilateral			439	253	65	118	240	29
Memorandum items:				(Percent of GDP)				
Current account	-5.6	-9.9	-4.7	-1.5	-2.2	-0.4	-1.0	0.4
excl. large agri-industry projects 2/	-3.6	-7.8	-2.3	1.2	0.5	1.5	1.0	1.3
Oil	12.7	5.9	8.4	10.5	9.4	9.6	8.8	7.1
Non-oil	-18.3	-15.8	-13.1	-12.0	-11.6	-10.0	-9.8	-6.7
Exports of goods and services	43.5	36.2	41.3	45.2	42.7	45.6	43.5	43.4
Imports of goods and services	-38.9	-34.4	-34.2	-33.3	-31.6	-33.3	-31.5	-31.0
Capital and financial accounts	2.9	2.2	4.1	2.4	3.4	2.2	2.8	2.0
Foreign Direct Investment	6.9	8.9	9.1	9.1	9.2	10.3	10.3	8.8
Overall balance 3/	-2.6	-7.7	-0.6	1.0	1.2	1.8	1.8	2.4
				(Billions of CFAF, unless otherwise indicated)				
Imputed reserves (end of period) 4/	1001.1	358.2	307.2	397.3	422.1	574.9	599.6	860.3

Sources: Gabonese authorities and IMF staff estimates and projections.

1/ Staff report for the Second Review of the Extended Arrangement Under the Extended Fund Facility (July 24, 2018; CR/18/269).

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, 2015–20

(Billions of CFA francs)

	2015	2016	2017	2018		2019		2020
			Act.	Prog. 1/	Proj.	Prog. 1/	Proj.	Proj.
				(Billion of CFA francs)				
Total revenue and grants	1,797	1,424	1,423	1,760	1,722	1,871	1,842	1,988
Revenue	1,797	1,424	1,423	1,760	1,722	1,871	1,842	1,988
Oil revenue	603	423	574	736	682	721	694	651
Non-oil revenue	1,194	1,001	849	1,024	1,040	1,149	1,148	1,337
Tax revenue	1,158	899	770	941	928	1,063	1,062	1,244
Taxes on income, profits, and capital gains	398	300	271	324	330	341	400	456
Domestic taxes on goods and services	167	223	168	223	194	295	278	349
Value-added tax	101	155	112	139	116	177	183	227
Other	66	68	56	84	78	118	95	123
Taxes on international trade and transactions	355	277	246	318	253	345	305	342
Import tariffs	331	266	246	299	243	326	293	330
Export taxes	24	11	0	18	10	19	11	12
Other non-oil taxes	239	99	84	77	150	82	80	96
Non-tax revenue	36	102	79	82	112	87	86	93
Grants	0	0	0	0	0	0	0	0
Total expenditure and net lending	1,879	1,833	1,649	1,709	1,679	1,818	1,711	1,902
Current expenditure	1,449	1,413	1,350	1,295	1,276	1,337	1,313	1,369
Wages and salaries	715	731	733	657	698	682	673	716
Goods and services	241	252	167	170	137	176	159	188
Interest payments	172	193	219	240	233	247	256	247
Domestic	44	61	80	78	84	90	91	85
Foreign	128	114	139	161	149	157	164	162
Transfers and subsidies	321	237	231	228	207	232	226	219
o/w: oil subsidies	80	27	35	20	22	0	0	0
Capital expenditure	423	405	133	316	256	480	369	533
Domestically financed	241	166	67	208	81	186	185	206
Foreign financed	183	239	65	109	175	294	184	327
Net lending	-13	25	79	78	96	0	28	0
Road Fund (FER) and special funds	18	19	20	7	6	0	1	0
Special accounts 2/	2	-29	67	13	45	0	0	0
Overall balance (commitment basis)	-82	-416	-226	50	43	53	131	85
Adjustment to cash basis 3/	-259	-133	-70	-75	-102	-2	22	6
Overall balance (cash basis)	-341	-549	-297	-25	-60	51	152	92
Total financing	341	549	297	25	60	-51	-152	-92
Foreign borrowing (net)	196	142	-154	-155	-84	110	-171	139
Drawings	183	239	65	109	175	294	184	327
Amortization	-288	-244	-306	-183	-179	-184	-354	-189
Arrears (reduction = -)	5	147	-26	-80	-80	0	0	0
Rollover (Eurobonds)	296	0	112	0	0	0	0	0
Domestic borrowing	213	417	-151	-235	-252	-440	-383	-287
Banking system (net)	293	510	-101	45	2	-77	-76	-23
Nonbank financing (net) 4/	-81	-93	-50	-280	-255	-363	-307	-264
Financing gap (+=deficit / - surplus)	-68	-10	602	414	396	279	401	57
Exceptional financing (excluding IMF)	…	…	488	302	284	167	289	29
Residual gap	…	…	114	112	112	112	113	28
IMF-EFF	…	…	114	112	112	112	113	28
Memorandum items:								
Gross government deposits in BEAC	532.4	232.1	315.0	345.8	396.0	469.0	517.4	607.2
Statutory advances from BEAC	452.5	452.5	452.5	452.5	452.5	452.5	452.5	452.5
Stock of arrears 5/	…	795.5	546.0	266.9	273.5	92.4	185.1	121.0
External	…	156.9	113.4	0.0	0.0	0.0	0.0	0.0
Domestic	…	638.6	432.6	266.9	273.5	92.4	185.1	121.0
VAT Reimbursement	…	347.8	326.9	266.9	273.5	92.4	185.1	121.0
Exceptional float 6/	…	248.8	87.9	0.0	0.0	0.0	0.0	0.0
Debt service	…	42.0	17.8	0.0	0.0	0.0	0.0	0.0
Non-oil primary balance excluding capital transfers (NOPB)	-513	-646	-582	-446	-406	-422	-307	-319
as percent of non-oil GDP	-9.0	-11.0	-9.7	-7.1	-6.4	-6.4	-4.5	-4.4
Non-oil GDP at market prices	5,676	5,885	6,024	6,289	6,328	6,625	6,772	7,302

Sources: Gabonese authorities and IMF staff estimates and projections.

1/ Staff report for the Second Review of the Extended Arrangement Under the Extended Fund Facility (July 24, 2018; CR. 18/269).

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, 2015–20

(Percent of GDP; billions of CFA francs)

	2015	2016	2017	2018		2019		2020
			Est.	Prog. 1/	Proj.	Prog. 1/	Proj.	Proj.
			(Percent of GDP)					
Total revenue and grants	21.1	17.1	16.4	18.6	18.2	19.1	18.4	19.0
Revenue	21.1	17.1	16.4	18.6	18.2	19.1	18.4	19.0
Oil revenue	7.1	5.1	6.6	7.8	7.2	7.4	6.9	6.2
Non-oil revenue	14.0	12.0	9.8	10.8	11.0	11.7	11.5	12.8
Tax revenue	13.6	10.8	8.9	9.9	9.8	10.8	10.6	11.9
Taxes on income, profits, and capital gains	4.7	3.6	3.1	3.4	3.5	3.5	4.0	4.4
Domestic taxes on goods and services	2.0	2.7	1.9	2.3	2.0	3.0	2.8	3.3
Taxes on international trade and transactions	4.2	3.3	2.8	3.4	2.7	3.5	3.0	3.3
Other non-oil taxes	2.8	1.2	1.0	0.8	1.6	0.8	0.8	0.9
Non-tax revenue	0.4	1.2	0.9	0.9	1.2	0.9	0.9	0.9
Total expenditure and net lending	22.1	22.1	19.0	18.0	17.7	18.5	17.1	18.2
Current expenditure	17.0	17.0	15.6	13.7	13.5	13.6	13.1	13.1
Wages and salaries	8.4	8.8	8.5	6.9	7.4	7.0	6.7	6.9
Goods and services	2.8	3.0	1.9	1.8	1.5	1.8	1.6	1.8
Interest payments	2.0	2.3	2.5	2.5	2.5	2.5	2.6	2.4
Transfers and subsidies	3.8	2.9	2.7	2.4	2.2	2.4	2.3	2.1
o/w: oil subsidies	0.9	0.3	0.4	0.2	0.2	0.0	0.0	0.0
Capital expenditure	5.0	4.9	1.5	3.3	2.7	4.9	3.7	5.1
Domestically financed	2.8	2.0	0.8	2.2	0.9	1.9	1.9	2.0
Foreign financed	2.1	2.9	0.8	1.1	1.8	3.0	1.8	3.1
Net lending	-0.2	0.3	0.9	0.8	1.0	0.0	0.3	0.0
Road Fund (FER) and special funds	0.2	0.2	0.2	0.1	0.1	0.0	0.0	0.0
Special accounts 2/	0.0	-0.3	0.8	0.1	0.5	0.0	0.0	0.0
Overall balance (commitment basis)	-1.0	-5.0	-2.6	0.5	0.5	0.5	1.3	0.8
Adjustment to cash basis 3/	-3.0	-1.6	-0.8	-0.8	-1.1	0.0	0.2	0.1
Overall balance (cash basis)	-4.0	-6.6	-3.4	-0.3	-0.6	0.5	1.5	0.9
Total financing	4.0	6.6	3.4	0.3	0.6	-0.5	-1.5	-0.9
Foreign borrowing (net)	2.3	1.7	-1.8	-1.6	-0.9	1.1	-1.7	1.3
Drawings	2.1	2.9	0.8	1.1	1.8	3.0	1.8	3.1
Amortization	-3.4	-2.9	-3.5	-1.9	-1.9	-1.9	-3.5	-1.8
Arrears (reduction = -)	0.1	1.8	-0.3	-0.8	-0.8	0.0	0.0	0.0
Rollover (Eurobonds)	3.5	0.0	1.3	0.0	0.0	0.0	0.0	0.0
Domestic borrowing (net)	2.5	5.0	-1.7	-2.5	-2.7	-4.5	-3.8	-2.8
Banking system	3.4	6.1	-1.2	0.5	0.0	-0.8	-0.8	-0.2
Non-bank sector 4/	-0.9	-1.1	-0.6	-3.0	-2.7	-3.7	-3.1	-2.5
Financing gap (+=deficit / - surplus)	-0.8	-0.1	6.9	4.4	4.2	2.8	4.0	0.5
Exceptional financing (excluding IMF)	...	...	5.6	3.2	3.0	1.7	2.9	0.3
Residual gap	...	...	1.3	1.2	1.2	1.1	1.1	0.3
IMF-EFF	...	...	1.3	1.2	1.2	1.1	1.1	0.3
			(Billion of CFA francs, unless otherwise indicated)					
Total revenue and grants	1,797	1,424	1,423	1,760	1,722	1,871	1,842	1,988
Total expenditure and net lending	1,879	1,840	1,649	1,709	1,679	1,818	1,711	1,902
Overall balance	-82	-416	-226	50	43	53	131	85
Memorandum items:								
Gross government deposits in BEAC (percent of non-oil GDP)	6.1	2.5	3.1	3.4	3.8	4.4	4.7	5.3
o/w Fund for Future Generations or Stabilization Fund	1.7	1.6	0.5	0.6	-1.1	1.7	0.1	0.8
Non-oil primary balance excluding capital transfers	-513	-646	-582	-446	-406	-422	-307	-319
As percent of non-oil GDP	-9.0	-11.0	-9.7	-7.1	-6.4	-6.4	-4.5	-4.4
Public debt (percent of GDP)	44.7	64.2	62.7	56.0	57.3	54.4	53.0	50.2
External debt (percent of GDP)	33.9	37.4	38.7	38.0	39.4	40.3	39.1	39.0
Domestic debt (percent of GDP)	10.8	26.8	24.0	18.0	17.9	14.1	13.9	11.2
o/w Statutory advances from BEAC	5.3	5.4	5.2	4.8	4.8	4.6	4.5	4.3
Stock of arrears 5/	...	9.6	6.3	2.8	2.9	0.9	1.8	1.2
External	...	1.9	1.3	0.0	0.0	0.0	0.0	0.0
Domestic	...	7.7	5.0	2.8	2.9	0.9	1.8	1.2
VAT Reimbursement	...	4.2	3.8	2.8	2.9	0.9	1.8	1.2
Exceptional float 6/	...	3.0	1.0	0.0	0.0	0.0	0.0	0.0
Debt service	...	0.5	0.2	0.0	0.0	0.0	0.0	0.0
GDP at market prices	8,503	8,311	8,669	9,476	9,475	9,802	10,011	10,441

Sources: Gabonese authorities and IMF staff estimates and projections.
1/ Staff report for the Second Review of the Extended Arrangement Under the Extended Fund Facility (July 24, 2018; CR/18/269).
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, 2015–20

(Percent of Non-oil GDP; Billions of CFA francs)

	2015	2016	2017		2018		2019		2020
			Prog. 1/	Est.	Prog. 1/	Proj.	Prog. 1/	Proj.	Proj.
					(Percent of non-oil GDP)				
Total revenue and grants	31.7	24.2	25.1	23.6	28.0	27.2	28.2	27.2	27.2
Revenue	31.7	24.2	25.1	23.6	28.0	27.2	28.2	27.2	27.2
Oil revenue	10.6	7.2	10.0	9.5	11.7	10.8	10.9	10.2	8.9
Non-oil revenue	21.0	17.0	15.1	14.1	16.3	16.4	17.3	17.0	18.3
Tax revenue	20.4	15.3	14.1	12.8	15.0	14.7	16.0	15.7	17.0
Taxes on income, profits, and capital gains	7.0	5.1	4.9	4.5	5.1	5.2	5.1	5.9	6.2
Domestic taxes on goods and services	2.9	3.8	3.6	2.8	3.5	3.1	4.4	4.1	4.8
Taxes on international trade and transactions	6.3	4.7	4.4	4.1	5.1	4.0	5.2	4.5	4.7
Other non-oil taxes	4.2	1.7	1.1	1.4	1.2	2.4	1.2	1.2	1.3
Non-tax revenue	0.6	1.7	1.0	1.3	1.3	1.8	1.3	1.3	1.3
Total expenditure and net lending	33.1	31.2	28.3	27.4	27.2	26.5	27.4	25.3	26.1
Current expenditure	25.5	24.0	22.1	22.4	20.6	20.2	20.2	19.4	18.8
Wages and salaries	12.6	12.4	12.0	12.2	10.5	11.0	10.3	9.9	9.8
Goods and services	4.2	4.3	2.9	2.8	2.7	2.2	2.7	2.3	2.6
Interest payments	3.0	3.3	4.1	3.6	3.8	3.7	3.7	3.8	3.4
Transfers and subsidies	5.7	4.0	3.1	3.8	3.6	3.3	3.5	3.3	3.0
o/w: oil subsidies	1.4	0.5	0.4	0.6	0.3	0.3	0.0	0.0	0.0
Capital expenditure	7.5	6.9	4.9	2.2	5.0	4.0	7.2	5.4	7.3
Domestically financed	4.2	2.8	1.9	1.1	3.3	1.3	2.8	2.7	2.8
Foreign financed	3.2	4.1	3.0	1.1	1.7	2.8	4.4	2.7	4.5
Net lending	-0.2	0.4	0.6	1.3	1.2	1.5	0.0	0.4	0.0
Road Fund (FER) and special funds	0.3	0.3	0.2	0.3	0.1	0.1	0.0	0.0	0.0
Special accounts 2/	0.0	-0.5	0.5	1.1	0.2	0.7	0.0	0.0	0.0
Overall balance (commitment basis)	-1.4	-7.1	-3.2	-3.8	0.8	0.7	0.8	1.9	1.2
Adjustment to cash basis 3/	-4.6	-2.3	-2.0	-1.2	-1.2	-1.6	0.0	0.3	0.1
Overall balance (cash basis)	-6.0	-9.3	-5.2	-4.9	-0.4	-0.9	0.8	2.3	1.3
Total financing	6.0	9.3	5.2	4.9	0.4	0.9	-0.8	-2.3	-1.3
Foreign borrowing (net)	3.5	2.4	-2.8	-2.6	-2.5	-1.3	1.7	-2.5	1.9
Drawings	3.2	4.1	3.0	1.1	1.7	2.8	4.4	2.7	4.5
Amortization	-5.1	-4.1	-5.4	-5.1	-2.9	-2.8	-2.8	-5.2	-2.6
Arrears (reduction = -)	0.1	2.5	-2.4	-0.4	-1.3	-1.3	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
Domestic borrowing	3.7	7.1	-2.0	-2.5	-3.7	-4.0	-6.6	-5.7	-3.9
Bank financing (net)	5.2	8.7	1.1	-1.7	0.7	0.0	-1.2	-1.1	-0.3
Nonbank financing (net) 4/	-1.4	-1.6	-3.1	-0.8	-4.5	-4.0	-5.5	-4.5	-3.6
Financing gap (+=deficit / - surplus)	-1.2	-0.2	10.0	10.0	6.6	6.3	4.2	5.9	0.8
Exceptional financing (excluding IMF)			8.1	8.1	4.8	4.5	2.5	4.3	0.4
Residual gap			1.9	1.9	1.8	1.8	1.7	1.7	0.4
IMF-EFF			1.9	1.9	1.8	1.8	1.7	1.7	0.4
			(Billion of CFA francs, unless otherwise indicated)						
Total revenue and grants	1,797	1,424	1,533	1,423	1,760	1,722	1,871	1,842	1,988
Total expenditure and net lending	1,879	1,840	1,731	1,649	1,709	1,679	1,818	1,711	1,902
Overall balance	-82	-416	-197	-226	50	43	53	131	85
Memorandum items:									
Gross government deposits in BEAC (percent of non-oil GDP)	8.8	3.7	2.5	5.2	5.5	6.3	7.1	7.6	8.3
o/w Fund for Future Generations or Stabilization Fund	1.7	1.6	1.6	0.5	1.0	-1.2	2.8	0.1	0.9
Overall balance (percent of non-oil GDP)	-1.4	-7.1	-2.3	-3.8	0.5	0.7	0.5	1.9	1.2
Non-oil primary balance excluding capital transfers	-513	-646	-559	-582	-446	-406	-422	-307	-319
As percent of non-oil GDP	-9.0	-11.0	-9.2	-9.7	-7.1	-6.4	-6.4	-4.5	-4.4
Oil revenues (percent of oil GDP)	21.3	17.4	23.3	21.7	23.1	21.7	22.7	21.4	20.7
Public debt (percent of non-oil GDP)	67.0	90.7	59.0	90.3	84.4	85.8	80.0	78.3	71.8
External debt (percent of non-oil GDP)	16.2	37.9	36.6	34.6	27.1	26.8	21.0	20.5	16.0
Domestic debt (percent of non-oil GDP)	50.8	52.8	22.4	55.7	57.3	59.0	59.0	57.8	55.7
o/w Statutory advances from BEAC	8.0	7.7	5.2	7.5	7.2	7.2	6.8	6.7	6.2
Stock of arrears 5/	…	13.5	6.6	9.1	4.2	4.3	1.4	2.7	1.7
External	…	2.7	0.0	1.9	0.0	0.0	0.0	0.0	0.0
Domestic	…	10.9	6.6	7.2	4.2	4.3	1.4	2.7	1.7
VAT Reimbursement	…	5.9	5.0	5.4	4.2	4.3	1.4	2.7	1.7
Exceptional float 6/	…	4.2	1.6	1.5	0.0	0.0	0.0	0.0	0.0
Debt service	…	0.7	0.0	0.3	0.0	0.0	0.0	0.0	0.0
Non-oil GDP at market prices	5,676	5,885	6,108	6,024	6,289	6,328	6,625	6,772	7,302

Sources: Gabonese authorities and IMF staff estimates and projections.

1/ Staff report for the Second Review of the Extended Arrangement Under the Extended Fund Facility (July 24, 2018; CR/18/269).

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

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, 2017–20
(Billions of CFA francs)

	2017	2018		2019		2020
	Act.	Prog. 1/	Proj.	Prog. 1/	Proj.	Proj.
	(In billions of CFA Francs)					
A. Overall fiscal deficit (cash basis)	296.6	24.7	59.6	-51.3	-152.4	-91.6
B. Other financing needs	627.9	734.1	716.8	813.6	918.3	686.4
Amortization (including arrears)	569.2	519.4	507.5	430.9	617.9	472.6
External	331.8	263.1	259.4	184.4	354.4	189.0
Amortization due	306.3	183.1	179.4	184.4	354.4	189.0
Arrears on amortization	25.5	80.0	80.0	0.0	0.0	0.0
Domestic	237.4	256.3	248.1	246.5	263.5	283.7
T-bills redemption	93.2	161.4	164.3	169.9	188.4	210.5
Moratorium debt	134.5	84.9	84.9	74.2	72.6	70.7
Other	9.7	10.0	-1.0	2.5	2.5	2.5
BEAC	82.8	30.8	81.0	123.2	121.5	89.7
Repayment of statutory advances	0.0	0.0	0.0	0.0	0.0	0.0
Net deposit accumulation	82.8	30.8	81.0	123.2	121.5	89.7
Repayment of VAT Arrears	20.9	59.9	53.3	174.5	88.5	64.1
Other (includes restructuring costs)	7.8	84.0	20.0	85.0	64.5	35.0
Arrears on domestic amortization (reduction)	2.0	39.9	15.9	0.0	0.0	0.0
Contingent reserve	…	…	39.0	…	26.0	25.0
C=A+B Total financing needs	924.5	758.8	776.4	762.3	765.8	594.8
D. Identified sources of financing	315.0	344.7	380.1	483.1	364.6	537.5
External	177.8	108.6	175.1	294.0	183.6	327.5
Project financing (ext.)	65.3	108.6	175.1	294.0	183.6	327.5
Eurobond rollover (ext.)	112.5	0.0	0.0	0.0	0.0	0.0
Domestic	137.2	236.1	205.0	189.1	181.0	210.0
T-bill issuance	112.9	150.0	150.0	120.0	120.0	150.0
Privatization receipts	0.0	39.0	39.0	25.0	26.0	25.0
Recovery of domestic tax arrears	24.3	47.1	16.0	44.1	35.0	35.0
E=C-D Financing gap	609.5	414.2	396.3	279.2	401.2	57.3
F. Exceptional external financing	487.8	302.2	284.2	166.9	288.7	29.3
Multilateral	438.6	253.0	235.0	117.7	239.5	29.3
African Development Bank	328.0	131.2	65.0	0.0	0.0	0.0
World Bank	110.7	121.8	0.0	117.7	239.5	29.3
Other (Africa EXIM Bank)	0.0	0.0	170.0	0.0	0.0	0.0
Bilateral	49.2	49.2	49.2	49.2	49.2	0.0
France	49.2	49.2	49.2	49.2	49.2	0.0
E-F Residual financing needs	121.7	112.0	112.1	112.4	112.6	28.0
IMF-EFF	113.9	112.0	112.1	112.4	112.6	28.0
Remaining gap	7.8	0.0	0.0	0.0	0.0	0.0
Memorandum item:						
Stock of government deposits at the BEAC	315.0	345.8	396.0	469.0	517.4	607.2

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

1/ Staff report for the Second Review of the Extended Arrangement Under the Extended Fund Facility (July 24, 2018; CR/18/269).

Table 4b. Gabon: Financing of the Fiscal Deficit, 2017–20

(Percentage of GDP)

	2017	2018		2019		2020
	Est.	Prog. 1/	Proj.	Prog. 1/	Proj.	Proj.
			(Percent of GDP)			
Overall fiscal deficit (cash basis)	3.4	0.3	0.6	-0.5	-1.5	-0.9
Other financing needs	7.2	7.7	7.6	8.3	9.2	6.6
Amortization (including arrears)	6.6	5.5	5.4	4.4	6.2	4.5
External	3.8	2.8	2.7	1.9	3.5	1.8
Amortization due	3.5	1.9	1.9	1.9	3.5	1.8
Arrears on amortization	0.3	0.8	0.8	0.0	0.0	0.0
Domestic	2.7	2.7	2.6	2.5	2.6	2.7
T-bills redemption	1.1	1.7	1.7	1.7	1.9	2.0
Moratorium debt	1.6	0.9	0.9	0.8	0.7	0.7
Other	0.1	0.1	0.0	0.0	0.0	0.0
BEAC	1.0	0.3	0.9	1.3	1.2	0.9
Repayment of statutory advances	0.0	0.0	0.0	0.0	0.0	0.0
Net deposit accumulation	1.0	0.3	0.9	1.3	1.2	0.9
Repayment of VAT Arrears	0.2	0.6	0.6	1.8	0.9	0.6
Other (includes restructuring costs)	0.1	0.9	0.2	0.9	0.6	0.3
Arrears on domestic amortization (reduction)	0.0	0.4	0.2	0.0	0.0	0.0
Contingency reserve	...	0.0	0.4	...	0.3	0.2
Total financing needs	10.7	8.0	8.2	7.8	7.6	5.7
Identified sources of financing	3.6	3.6	4.0	4.9	3.6	5.1
External	2.1	1.1	1.8	3.0	1.8	3.1
Project financing (ext.)	0.8	1.1	1.8	3.0	1.8	3.1
Eurobond rollover (ext.)	1.3	0.0	0.0	0.0	0.0	0.0
Domestic	1.6	2.5	2.2	1.9	1.8	2.0
T-bill issuance	1.3	1.6	1.6	1.2	1.2	1.4
Privatization receipts	0.0	0.4	0.4	0.3	0.3	0.2
Recovery of domestic tax arrears	0.3	0.5	0.2	0.4	0.3	0.3
Financing gap	7.0	4.4	4.2	2.8	4.0	0.5
Exceptional external financing	5.6	3.2	3.0	1.7	2.9	0.3
Multilateral	5.1	2.7	2.5	1.2	2.4	0.3
African Development Bank	3.8	1.4	0.7	0.0	0.0	0.0
World Bank	1.3	1.3	0.0	1.2	2.4	0.3
Other (Africa EXIM Bank)	0.0	0.0	1.8	0.0	0.0	0.0
Bilateral	0.6	0.5	0.5	0.5	0.5	0.0
France	0.6	0.5	0.5	0.5	0.5	0.0
Residual financing needs	1.4	1.2	1.2	1.1	1.1	0.3
IMF-EFF	1.3	1.2	1.2	1.1	1.1	0.3
Memorandum item:						
Stock of government deposits at the BEAC	3.6	3.4	4.2	4.4	5.2	5.8

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

1/ Staff report for the Second Review of the Extended Arrangement Under the Extended Fund Facility (July 24, 2018; CR/18/269).

Table 5. Gabon: Monetary Survey, 2015–20

	2015	2016	2017	2018							2019				2020
			Q4	Q1	Q2		Q3		Q4		Q1	Q2	Q3	Q4	
			Act.	Act.	Prog. 1/	Act.	Prog. 1/	Act.	Prog. 1/	Proj.			Proj.		
	(Billion of CFA francs, unless otherwise indicated)														
Net foreign assets	1107	445	549	369	384	487	387	449	639	650	596	701	718	827	1077
Bank of Central African States (BEAC)	1001	358	307	232	142	216	145	223	397	422	423	441	493	600	849
Foreign assets	1131	487	537	461	372	455	430	512	739	764	765	840	891	1054	1331
Foreign liabilities	-130	-129	-230	-229	-230	-239	-286	-289	-342	-342	-342	-398	-398	-454	-482
o/w: IMF credit	0	0	111	111	111	113	167	169	223	223	223	280	280	336	364
Deposit money banks (DMBs)	118	88	242	137	242	271	242	226	242	228	173	260	226	228	228
Foreign assets	287	318	367	272	367	359	367	313	367	327	272	359	313	327	327
Foreign liabilities	-170	-229	-125	-135	-125	-88	-125	-87	-125	-99	-99	-99	-87	-99	-99
Net domestic assets	1141	1705	1420	1600	1614	1714	1729	1781	1511	1602	1465	1565	1667	1715	1868
Domestic credit	1322	1813	1668	1768	1854	1863	1969	1960	1759	1849	1713	1813	1915	1962	2116
Claims on general government (net)	73	598	533	756	844	762	1019	880	760	717	701	737	770	754	759
Claims on central government (net)	143	654	599	796	913	827	1088	880	826	783	767	802	836	820	825
BEAC, Claims on central government (net)	-79	221	249	452	494	451	550	485	330	280	280	337	337	271	210
BEAC, Claims on central government	453	453	564	564	564	566	620	622	676	676	676	733	733	789	817
Statutory advances	453	453	453	453	453	453	453	453	453	453	453	453	453	453	453
Use of IMF credit	0	0	111	111	111	111	167	169	223	223	223	280	280	336	364
Other	0.4	0.2	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Liabilities to central government	-532	-232	-315	-111	-70	-115	-70	-138	-346	-396	-396	-396	-396	-517	-607
Fund for Future Generations/Sovereign Wealth Fund	-147	-150	-47	-40	-10	-10	-10	-11	-61	115	115	115	115	-6	-96
Other CG deposits and vault cash	-386	-82	-268	-71	-60	-104	-60	-127	-285	-511	-511	-511	-511	-511	-511
Deposit money banks (net)	223	433	415	413	419	425	538	435	496	503	486	466	499	549	615
Claims on central government	412	622	529	515	533	538	652	549	609	616	600	579	612	662	728
Liabilities to central government	-189	-189	-113	-102	-113	-113	-113	-114	-113	-113	-113	-113	-113	-113	-113
Claims on public agencies (net)	-71	-56	-66	-40	-69	-66	-69	0	-66	-66	-66	-66	-66	-66	-66
Claims on nongovernment (net)	1182	1114	1069	973	1010	1036	950	1080	998	1132	1012	1077	1145	1208	1357
Other items (net)	-181	-108	-248	-169	-241	-149	-241	-179	-248	-248	-248	-248	-248	-248	-248
Broad money (M2)	2162	2049	1969	1968	1998	2201	2116	2229	2150	2251	2061	2267	2385	2542	2944
Currency	370	352	305	343	305	364	323	514	328	343	314	346	364	388	449
Deposits	1792	1697	1640	1664	1694	1868	1793	1865	1822	1908	1746	1921	2022	2154	2495
Memorandum items:	(Annual percentage change, unless otherwise indicated)														
Broad money (M2)	-1.4	-5.2	-3.9	-2.9	6.7	17.5	16.7	23.0	9.2	14.3	12.9	15.8	14.4	12.9	15.8
Reserve money	6.9	-28.4	-10.3	28.4	7.3	7.3	6.3	6.3	28.0	23.9	22.3	19.9	17.4	22.3	19.9
Credit to the private sector	-9.8	-5.6	-4.1	-11.4	-6.3	-4.0	-7.9	4.7	-6.9	5.9	4.0	4.0	6.0	6.7	12.3
Credit to the private sector (in percent of non-oil GDP)	20.0	18.2	17.3	...	...	...	...	...	15.4	17.4	17.4	18.2	19.4	17.4	18.2
Broad money (in percent of overall GDP)	25.4	24.7	22.7	...	...	...	...	...	22.7	23.8	25.4	28.2	30.9	25.4	28.2
Velocity (Non-oil GDP/average M2)	2.6	2.8	3.2	3.3	3.2	3.1	3.1	3.0	3.0	2.8	3.4	3.0	2.9	2.8	2.7

Sources: Gabonese authorities and IMF staff estimates and projections.

1/ Staff report for the Second Review of the Extended Arrangement Under the Extended Fund Facility (July 24, 2018; CR/18/269).

Table 6. Gabon: Financial Soundness Indicators for the Banking Sector, 2013–18

(Percent)

	2013	2014	2015	2016				2017				2018		
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Aug.
Capital														
Regulatory capital to risk-weighted assets[1, 2]	12.3	9.4	8.3	8.8	10.0	9.9	8.1	8.2	9.4	13.3	12.9	14.5	14.2	12.9
Regulatory Tier 1 capital to risk-weighted assets	11.6	8.8	8.0	8.8	9.9	9.3	7.7	7.9	9.5	13.8	13.2	14.9	14.1	12.8
Capital to assets	9.2	9.1	9.3	9.9	9.5	9.7	9.4	9.8	9.6	12.2	11.7	12.1	11.1	11.2
Large exposures to capital	151.6	198.6	220.1	208.0	165.4	166.1	189.4	203.4	518.9	369.6	395.8	372.5	339.2	394.4
Asset quality														
Non-performing loans (gross) to total loans (gross)	2.7	4.1	5.3	5.1	7.2	6.2	6.6	7.0	7.9	8.1	9.1	11.3	10.5	10.5
Non-performing loans net of provisions to capital	-0.5	0.3	6.5	3.0	15.3	8.6	9.0	9.7	13.1	10.3	8.8	19.4	15.8	9.3
Earnings and profitability														
Return on equity	19.6	21.5	13.5	...	4.1	...	36.8	...	134.6	...	39.0	...	37.0	...
Return on assets[3]	1.9	2.1	1.3	...	0.4	...	3.4	...	13.0	...	4.4	...	4.3	...
Liquidity														
Liquid assets to total assets	20.0	19.0	24.4	23.7	25.7	23.2	25.0	23.6	20.8	23.0	28.5	31.0	32.8	31.2
Ratio of liquid assets to short-term liabilities	125.5	112.9	148.3	139.9	155.1	135.7	134.0	130.1	119.6	144.6	157.1	202.0	170.7	172.2
Total deposits to total (noninterbank) loans	108.6	105.5	113.8	115.5	110.6	108.9	108.4	108.8	102.5	103.3	106.5	113.7	121.0	121.8
Credit														
Gross loans (banks' book, in CFAF billions)	1870.8	1895.1	1764.3	1832.2	1891.0	1820.7	1927.3	1933.0	1853.3	1799.2	1768.4	1671.8	1767.3	1744.1
Gross loans (annualized growth rate)	12.1	1.3	-6.9	-1.1	5.0	2.3	9.2	5.5	1.8	-1.2	-8.2	-13.5	-4.6	-4.5

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.

Table 7. Gabon: Indicators of Capacity to Repay the Fund, 2017–30

		Projection												
	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	6.0	23.8	35.7	35.7	35.7	35.7	29.8	11.9	0.0	0.0
Charges and interest	0.0	0.0	4.7	4.7	4.7	4.5	3.9	3.2	2.5	1.7	1.0	0.5	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	6.0	23.8	53.6	74.4	77.4	77.4	71.5	53.6	23.8	3.0
Charges and interest	0.4	0.4	7.3	10.4	11.1	10.7	9.4	7.9	6.3	4.7	3.1	1.7	0.8	0.4
Total obligations based on existing and prospective credit														
In millions of SDRs	0.4	0.4	7.3	10.4	17.0	34.5	63.0	82.3	83.7	82.1	74.6	55.3	24.6	3.3
In millions of US$	0.6	0.5	10.3	14.7	24.1	49.2	90.1	117.7	119.7	117.4	106.7	79.1	35.2	4.8
In percent of exports of goods and services	0.0	0.0	0.1	0.2	0.3	0.6	1.0	1.2	1.2	1.1	1.0	0.7	0.3	0.0
In percent of debt service 1/	0.1	0.1	1.1	2.3	3.7	6.3	10.8	13.1	12.8	12.6	11.6	9.2	4.4	0.6
In percent of GDP	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	0.1	0.1	1.0	1.0	1.1	1.7	2.5	2.9	2.7	2.4	2.0	1.4	0.6	0.1
In percent of quota	0.2	0.2	3.4	4.8	7.9	16.0	29.2	38.1	38.8	38.0	34.5	25.6	11.4	1.5
Outstanding Fund credit														
In millions of SDRs	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$	396.1	405.4	602.4	656.6	650.3	619.7	545.1	438.6	327.9	217.2	115.0	38.3	4.3	0.0
In percent of exports of goods and services	6.4	5.5	7.8	8.0	7.7	7.0	5.9	4.5	3.2	2.0	1.1	0.3	0.0	0.0
In percent of debt service	64.0	54.9	65.1	103.5	99.0	79.0	65.5	49.0	35.1	23.2	12.5	4.4	0.5	0.0
In percent of GDP	2.7	2.4	3.4	3.5	3.3	3.0	2.5	1.9	1.3	0.8	0.4	0.1	0.0	0.0
In percent of Gross International Reserves	74.9	53.1	56.3	42.8	30.7	22.0	15.1	10.8	7.3	4.4	2.1	0.7	0.1	0.0
In percent of quota	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)	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	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	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$)	6,159	7,319	7,765	8,187	8,446	8,863	9,294	9,843	10,270	10,602	10,920	11,320	11,759	12,246
Debt service (in millions of US$)	619	739	925	635	657	784	833	896	935	936	922	862	804	791
Nominal GDP (in millions of US$)	14,922	17,131	17,861	18,878	19,821	20,928	22,203	23,182	24,365	25,722	27,161	28,776	30,266	31,863
Gross Official Reserves Imputed to Gabon (in millions of US$)	529	763	1,070	1,535	2,116	2,818	3,607	4,045	4,488	4,930	5,364	5,772	6,138	6,474
Quota (millions of SDRs)	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.	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	101.357	33.069
June 1, 2019	Observance of PCs for end-December 2018, continuous PCs and completion of fourth review.	71.430	100.399	33.069
December 1, 2019	Observance of PCs for end-June 2019, continuous PCs and completion of fifth review.	71.430	100.399	33.069
April 30, 2020	Observance of PCs for end-December 2019, continuous PCs and completion of sixth review.	35.820	50.648	16.583
	Total	464.400	648.985	215.000

Source: IMF staff projections.
1/ Gabon's quota is SDR 216.0 million.

Appendix I. Letter of Intent

November 20, 2018

The Managing Director
International Monetary Fund
Washington, DC, 20431
USA

Dear Managing Director,

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 taken 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. The October 2018 legislative and local elections have defused political and social tensions. Program implementation has improved since the conclusion of the second review in early August 2018. Five end-September 2018 indicative targets were met, but the continuous PC on external arrears was missed. Two indicative targets on the stock of domestic arrears and priority social spending were also missed. Furthermore, there were delays in implementing structural benchmarks through end-November 2018.

Even though economic growth has been revised downward in 2018, medium-term prospects remain favorable. Growth is projected to be lower than expected in 2018, due to lower oil production. At the same time, the non-oil commodity sectors (mining, forestry, and agriculture) continue to experience fast growth. Inflation increased to 3.4 percent (12-month average) in September 2018, reflecting higher food prices and the pass through of rising international oil prices. Fiscal performance at end-September was better than expected, thanks to higher than targeted non-oil revenue collection. The recovery is expected to firm up in 2019 and the medium-term outlook is still promising, with GDP growth projected to reach 3.1 percent in 2019 and 5 percent in the medium term. In this context, we remain committed to implementing structural reforms aimed at achieving competitiveness and laying the basis for strong and durable recovery in the medium term.

We will achieve our fiscal objectives in 2018. We have implemented all the measures in the supplementary budget approved by the Senate in order to reduce the non-oil primary balance by

3.3 percent of non-oil GDP. Furthermore, the 2019 draft budget law include an automatic adjustment mechanism for public spending to better manage fiscal risks when revenue collections fall short of initial projections.

We are renewing our commitment to pursuing our strategy to reduce public debt arrears. We have accumulated new external arrears since the second review, which we are committed to clear by mid-December 2018. As previously agreed, we will clear all external arrears owed on non-guaranteed commercial loans by end-December 2018. Regarding domestic arrears, we renew our commitment to clear them per the agreed calendar under the Club de Libreville. We are convinced that the establishment of the single treasury account and the implementation of the recommendations of the latest IMF technical assistance mission, regarding the effectiveness of weekly meetings on treasury management and the strengthening of communication channels between the Directorate General of the Debt and the General Directorate of the Treasury will allow us to avoid the accumulation of new arrears on the external debt.

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, 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 and merging of several autonomous agencies.

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. We continue to work on the resolution of the three distressed public banks. We are continuing our efforts to liquidate the three banks, mindful of 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 (Attachment II). Based on the strength of the policies outlined in this letter, we request the completion of the third review under the extended arrangement and a waiver of nonobservance for the continuous performance criteria on the non-accumulation of external arrears, and modification of the external debt performance criterion.

With the political elections 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 line with Fund policies on such matters. 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 third 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

November 20, 2018

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

A. Economic Outlook

1. **Macroeconomic conditions are slowly improving.** Overall economic growth is expected to reach 1.2 percent in 2018 against an initial projection of 2.0 percent. The downward revision largely reflects a significant decrease in oil production (-4.3 percent), as the acceleration of production in the second half of the year did not make up for the 13.4 percent decline recorded in the first half of the year. Despite the strong performance of mining and the agriculture and timber sectors, nonoil growth is also expected to be weaker than estimated owing to a lower volume of public investment.

2. **Fiscal performance based on end-September data has been mixed.** Both revenues and expenditure have been higher than anticipated. The high level of expenditure on goods and services is due in part to the legislative elections held in October 2018. Expenditure linked to the special accounts remains high owing to the delay in the reform of the public agencies. In addition, while significant progress has been made, the wage bill has not declined as much as anticipated. Capital expenditures have increased sharply as well, and the nonoil deficit stood at 5.4 percent of nonoil GDP.

3. **Monetary conditions continue to improve.** The money supply (M2) grew 23 percent at end-September 2018, supported essentially by rising private sector deposits. However, banking lending to the private sector has remained weak and levels of nonperforming loans are still high. The average year-on-year consumer price increase was 3.4 percent in September (an increase of 0.7 points since June 2018) owing to pressure on food and fuel prices following implementation of the indexation mechanism for retail fuel prices and the elimination of related subsidies.

4. **The government continues to service the debt and clear public debt arrears despite liquidity constraints.** The total stock of debt at end-September 2018 was equivalent to 52.5 percent of GDP, as against 52.1 percent at end-June 2018. Arrears on the domestic and foreign debt stood at 5.2 percent and 0.6 percent of GDP, respectively.

5. **Economic growth should recover in the short term, but more modestly than anticipated.** The reference forecast for 2019 has been revised to 3.1 percent, i.e., 0.3 percentage points less than the previous forecast. This change primarily reflects a downward revision of

government expenditure. However, economic activity remains strong in the agriculture, forestry and mining sectors. The overall investment effort will be supported by the start of many projects financed under public-private partnerships.

6. **The medium-term outlook remains promising overall if policies are implemented as planned.** Strong and steady flows of FDI to agri-business, mining, energy, and other nontraditional sectors can help the Gabonese economy reduce its dependence on oil and public expenditure. At the same time, the oil industry will remain important for the country and higher oil prices, along with recent discoveries and the ongoing work on a new tax regime for oil, should encourage new investments and contribute to economic activity in certain services. Largely rural, labor-intensive agriculture and forestry projects could also generate positive spillovers, but this potential will depend in large part on reforms aimed at improving the business climate.

B. Fiscal Policy

7. **The non-oil primary deficit should stand at 6.4 percent of nonoil GDP at end-2018, an adjustment effort of 0.7 percentage points more than programmed.**

a. Total revenues are expected to increase by 1.8 percentage points of GDP (+3.6 percentage points of nonoil GDP) at end-2018 from the level in 2017. Higher oil prices and exceptional revenues continue to push oil revenues upward (+0.6 percentage points of GDP as compared to 2017). At the same time, non-oil revenue should increase by 1.2 percentage points of GDP (or 2.3 percentage points of nonoil GDP). This increase includes exceptional revenues (registration fees and targeted tax audits) and reflects the impact of the introduction of planned measures for the mobilization of nonoil revenues. In 2018, the General Directorate of Customs and Indirect Taxes (DGDDI) implemented the following revenue mobilization measures:

- the elimination of suspended duty arrangements (normal temporary admission, special temporary admission, private warehouses);
- application of values in the taxation of manganese;
- collection of debts owed by the national refinery and other importers;
- new arrangements for excise taxes
- and the measure to combat the high cost of living, with the introduction of a list of basic items.

The main actions of the General Directorate of Taxation focused on:

- the taxation of public departmental agencies;
- strengthening of the quality and frequency of corporate income tax audits;

- the taxation of luxury vehicles and revision of the rates on funds transfers;
- tax on personalized license plates;
- increase in the rates of the capital transfer and excise taxes;
- expansion of the taxable basis of the single combined tax (ISL);

These actions will continue through to the end of 2018. As well, the second phase of the "Tax Justice" operation involving verification of the justifications for exemptions is currently under way.

b. At the same time, efforts to reduce expenditure by 1.3 percentage points of GDP (0.9 percentage points of non-oil GDP) as compared to 2017, are ongoing. Wage bill expenditure should decline, reflecting the government's commitment to containing this item despite its sensitivity. The following key measures have been implemented in this context since the beginning of 2018:

- staff reductions in the offices of the President of the Republic, Prime Minister, Ministers and the Secretariat General of the Government;
- systematic retirement of civil servants who have reached the maximum retirement age;
- reduction in the notice of termination of employment from 4 months to 2 months for officials with civil service status;
- elimination of the notice of termination of employment for officials without civil service status performing ministerial office functions and relieved of their duties;
- a freeze on recruitment in the civil service, except for the education and health sectors;
- elimination of the housing and transportation allowances for recipients of government housing and vehicles;
- purging of the payroll database;
- streamlining of credits of the non-permanent workforce and of financial authorities.

These measures will be maintained through to the end of the year, with emphasis on monitoring of staff attendance and the updating of the database of civil servants, including those in departmental agencies.

The main measures addressing expenditure on goods and services have included:

- strengthening of the supervision of foreign missions of government officials;

- streamlining of expenditure on administrative leases by renegotiating lease agreements downward and repossessing property in the context of the land tenure normalization efforts;

- control and harmonization of tuition fees for students and scholarship holders.

In the area of transfer and investment expenses, attention will be placed on performance contracts in the granting of subsidies and public assistance and the introduction of a ceiling on the value of purchases of government vehicles.

c. To control the deficit, we maintain our commitment to adjusting the level of spending automatically during the final quarter of 2018 if non-oil revenues collected are 5 percent or more below forecast, as provided in the supplementary budget. In addition, any additional revenue, not provided for in the initial budget framework, will be used to increase reserves.

8. **The mobilization of sources of financing will be stepped up to prevent cash flow pressures.** The Treasury float will be contained to a maximum of 15 percent of expenditure directly controlled by the government. The procedures in place since the first quarter of 2018 for the collection of outstanding taxes have not yet resulted in collections at the anticipated level owing to the liquidity constraints of targeted companies. However, the government remains committed to a collection's target at end-2018 of 40 percent of outstanding taxes identified as immediately recoverable **(proposed reset structural benchmark; end-December 2018)**.

9. **The fiscal adjustment will continue in 2019, as the reforms undertaken in 2018 are fully effective and new measures are introduced.** The objective is to bring the non-oil primary deficit down to 4.5 percent of non-oil GDP, an adjustment of 1.9 percentage points vis-à-vis 2018.

a. On the revenue side, while a decline in oil revenues is expected as a result of the decline in oil production, non-oil revenue should increase by 0.5 percentage points of non-oil GDP. The government will reinforce full implementation of the measures already taken in 2018. These measures include: (i) expansion of the tax base by applying the prepayment to the personal income tax (IRPP) and property taxes; (ii) stepping up of tax audits; (iii) clearance of outstanding taxes. As well, new measures will be introduced in the 2019 draft budget, including the tax on household waste management.

b. The government remains committed to clearing 50 percent of the expired warehousing arrangements to increase the collection of customs revenues (**structural benchmark; end-December 2018**). To supplement these reforms, other measures are included in the draft 2019 budget to strengthen the mobilization of non-oil revenues, specifically:

- elimination of all illegal exemptions on customs duties and taxes, including elimination of the program to combat the high cost of living, with the exception of those falling under the provisions of the Customs Code of the Central African Economic and

Monetary Community (CEMAC), the tourist sector and the special economic zones, as well as the Gabon Special Economic Zone group (GSEZ);

- introduction of a special hydrocarbons warehouse customs regime for the import of petroleum products.

c. On the expenditure side, the total reduction of 1.3 percentage points of nonoil GDP as against 2018 results from the planned reduction in the wage bill (-1.1 percentage points of non-oil GDP), net lending (-1.1 percentage points of non-oil GDP), and the special accounts (-0.7 percentage point of non-oil GDP). Measures affecting the wage bill will include:

- the systematic retirement of civil servants who have reached the maximum retirement age;
- the termination of contracts with contractual civil servants who are over 60;
- the elimination of civil service job categories for specific jobs that are entirely outsourced to public departmental agencies;
- the formalization of organizational frameworks for the administrative services and public departmental agencies (structure, job, position and job description) with assistance from the World Bank in the context of the Strategic Workforce Planning (*Gestion Prévisionnelle des Emplois et des Compétences*—GPEC).
- For the special accounts, work started, with assistance from Central AFRITAC, on a comprehensive inventory of earmarked revenues not included in the government budget will continue. It will focus on better controlling the special accounts and revenue earmarking to comply with the provisions of Law 20/2014 (LOLFEB). The results of this exercise will be included in the 2020 draft budget. Moreover, elimination and/or merger of several departmental agencies should help to balance special accounts.

d. The fiscal adjustment mechanism introduced in 2018 will again be included in the 2019 draft budget, along with a sufficient level of mandatory reserves based on the following rates: 20 percent for expenditures on goods and services, 15 percent for transfer expenditures, 16 percent for investment expenditures and 10 percent for other expenditure. These budgetary reserves will be unavailable until it is released.

10. **The mobilization of sources of financing will be stepped up in 2019.** Efforts to collect outstanding tax arrears will be intensified. As well, the draft budget includes interventions on the regional financial market totaling CFAF 120 billion, and CFAF 26 billion could be mobilized as a contingency from sales of assets to respond to financing needs.

11. **The 2019 draft budget, which will reflect the commitments made by the government, will be submitted to Senate before the third review of the program.** The draft budget will include all the fiscal targets and measures defined by the program (**prior action**).

12. **The return to a near fiscal balance and then to a surplus remains a medium-term objective.** The fiscal balance on a cash basis should move out of deficit in 2019, reaching 1.5 percent of GDP. At the same time, the primary non-oil deficit should gradually decline to 4.4 percent of non-oil GDP in 2020. As well, the basic non-oil primary surplus should reach 1.6 percent of nonoil GDP by 2021. This gradual improvement in the fiscal position will make it possible to reduce the level of the public debt below 50 percent in the medium term.

C. Arrears Management

13. **The strategy for the payment of external arrears defined by the program is maintained, as is the plan for the repayment of domestic arrears:**

- All arrears on the commercial non-guaranteed external debt will be entirely cleared by end-December 2018.
- VAT arrears will be paid until 2021.
- The remaining exceptional Treasury float will be paid as planned in 2018. At the same time the accumulation of a new float in 2019 will remain limited to 15 percent of total expenditures on goods and services, transfers and domestically financed investment.
- Payment of the Libreville Club creditors has begun in accordance with the agreed debt clearance plan. The arrears covered by the Libreville Club arrangement were consolidated at an amount of CFAF 285.7 billion, repayable over 74 months. Under the terms of the agreement signed, the Gabonese government undertakes to pay CFAF 5 billion each month to the "Libreville Club" Economic Interest Group. The government has already made five payments totaling CFAF 25 billion. Libreville Club commitments in 2019 have been set at CFAF 60 billion.

D. Structural Measures to Prevent the Accumulation of New Expenditure Arrears

14. **The preparation of the new cash flow plan and its articulation with the debt management will be strengthened.** The government has requested technical assistance from the International Monetary Fund to improve cash flow management in connection with the management of the debt. This mission has taken place in November 2018. The government is committed to implement the recommendations formulated by the mission, particularly to ensure regular updating of the monthly cash flow plan and mobilization of the most appropriate instruments to cover the deficits on a proactive basis. These include (i) finalizing the cash flow plan for 2019 and attaching it to the approved budget law for 2019 by December 2018; (ii) initiating by March 2019 the

preparation of weekly cash flow forecasts for a transition to this monitoring mode during the first half of 2019; (iii) building a consolidated funding program between the Treasury (DGCPT) and the Debt Directorate (DGD) starting in January 2019; and (iv) organizing the DGD's monthly transmission to the DGCPT, at least monthly of the daily debt service and external loan drawdown forecasts over a rolling year horizon starting in January 2019].

15. **The unification of the single Treasury account (CUT) remains a priority for 2018 and 2019 to enhance the transparency and efficiency of cash flow management.**

- Technical discussions and meetings have been held with the BEAC to define the terms and conditions for the creation of subaccounts within the CUT and to obtain the signatures of the Minister responsible for the Budget and Public Accounts and the National Director of the BEAC on an agreement on the establishment and operation of the CUT with subaccounts, replacing the current agreements specific to each account. These discussions revealed technical obstacles for which solutions were developed and which have made it impossible to meet the deadline for adapting the operation of the CUT to ensure operational repatriation of the deposit accounts of Treasury correspondent banks and government accountants opened with the state depository corporation (*Caisse des dépôts et consignations*—CDC). The government undertakes to immediately close these accounts at the CDC and to repatriate the accounts whose existence remains justified in the context of the CUT (**prior action**).

- A second and final phase in the expansion of the scope of the CUT will involve closing accounts opened in commercial banks to repatriate their credit balances to the CUT (**proposed new structural benchmark, end-March 2019**). An initial inventory of these accounts was completed prior to the second review of the program. This list will be completed and finalized and the terms and conditions for the closure of the accounts will be defined in coordination with the BEAC, bearing in mind the volume of deposits in each bank, for repatriation of the credit balances to the CUT and the definition of a method for handling debit balances.

16. **A mechanism for deferred payment of the VAT will be piloted in 2019 to make VAT credit refunds more secure.** The 2019 draft budget introduces the possibility of a deferred VAT payment process for imports, which will eliminate cash advances by companies, including the two oil companies and the national mining company, and at the same time avoid the need for their refund (**structural benchmark, end-October 2018**). The deferred payment will apply exclusively to imports of materials, equipment, and spare parts for equipment and industrial machinery.
The eligibility criteria for enterprises have been clearly defined: respect of filing and payment obligations for taxes; fees and levies; respect of declaration and payment obligations for customs duties and taxes; compliance with the various customs regimes; and existence of a customs clearance credit with a forwarding agent licensed by Customs. At the same time, the operation of the escrow account for VAT credit refunds has been improved. A procedure of systematic collection and refund in the escrow account should be developed for VAT collections at the customs frontier, in cooperation with the Treasury.

17. **Enhanced control of expenditure execution is effective at the central and local levels and will be gradually expanded to public entities.** The work undertaken since the start of the program with the Fund has made it possible to systematize the issuance of purchase orders when expenditures are committed, in both the central government departments (via VECTIS) and the provincial departments (via E-BOP). This important step ensures enhanced monitoring of expenditure execution aimed at decreasing the use of exceptional expenditure procedures and thus reducing the accumulation of arrears. The next step involves implementing similar controls in public institutions and entities to better control expenditure, particularly from the special accounts. Based on these commitments, the government has prepared a timetable for the deployment of information systems adapted to the use of the new expenditure execution procedure in these entities. This system plans for the effective implementation of enhanced monitoring in the entities concerned by end-2019.

18. **Efforts to improve the monitoring of the arrears continue.** Since June, payment delays have been closely monitored with the help of the activation of dedicated modules and alert procedures in VECTIS and E-BOP. The report on the volume and composition of the remaining outstanding balances at end-2017 was published in July 2018 and the report for the first half of 2018 was published in October (**continuous structural benchmark**). Following an international call for bids in 2017 for an independent audit of the arrears of the government and public entities in 2015 and 2016, PricewaterhouseCoopers was selected by the government. A contract was signed, but the General Directorate of the Debt could not begin the work owing to internal discussions on the scope of the audit. The mobilization advance has been paid to PWC, premises have been made available to them, and the service requisition has been signed. The government therefore undertakes to complete and publish the results of this audit by the end of the first quarter of 2019, expanding the scope of the audit to fiscal year 2017 (**proposed reset structural benchmark, end-April 2019**).

E. Structural Measures for the Mobilization of Nonoil Revenue

19. **The rationalization and control of tax and customs exemptions remain a priority.** The list and the amount of VAT exemptions were detailed in a report attached to the 2018 Supplementary Budget. The objective is to consolidate this study and gradually extend it to other taxes in order to broaden the information submitted in support of the budget. At the same time, a decision of the Minister of Economy, in effect since October 2018, eliminated the granting of tax and customs exemptions to companies holding public procurement and other government contracts. A one-stop tax window was also established in the SEZs (special economic zones) of Nkok to monitor the payment of non-exempt taxes, and tax-exempt companies are currently subject to on-site audits under the "tax justice" initiative. The government is committed to pursuing these initiatives, particularly with a view to ensuring effective implementation of the elimination of exemptions.

20. **The customs and tax audit procedures will be strengthened with a view to combating tax fraud and evasion.** The directorates general of customs and taxes will continue implementing the ongoing program of joint audits and the strengthening of data exchanges between the two

administrations. To date, 31 companies have been audited and adjustments totaling CFAF 1.533 billion have been made, of which CFAF 866 million have been recovered. Thirty companies could not be located. These are individual entrepreneurs engaged in trade who have no fixed establishment. Thirty-three audits are currently under way. These operations will be concluded by end-2018. An audit program is scheduled for 2019, based on a list of companies identified in the context of cooperation between the customs and tax administrations to combat VAT fraud.

21. **Cash payments will be possible and electronic payments promoted.** Since the first quarter of 2018, payment in cash has become standard procedure. An initial awareness-raising campaign was conducted for economic operators, and a second is planned. A list of companies eligible for the exceptional customs bond (*credit d'enlèvement*) procedure was also drawn up, based on objective criteria such as the level of contributions, tax compliance, and the lack of disputes. A total of 100 enterprises was selected. Operational payment arrangements were also defined, to enable bank transfers of CFAF 100 million or more. To further reduce the use of customs bonds, the government will appoint a joint tax/customs working group to assess the advisability of upgrading the E-tax application to include the payment of customs duties and taxes. At the same time, the task of migrating to ASYCUDA World, which includes an integrated e-payment module, will continue with a view to launching the pilot site (Owendo Central Office) in the first quarter of 2019.

22. **The actions initiated in 2018 to prevent, detect, and address cases of VAT fraud will be extended.** The government will continue taking steps to improve control of the taxpayer file and the mechanisms for monitoring VAT returns:

- The situation of economic operators not subject to VAT even though their turnover exceeds CFAF 60 million was regularized (**prior action**). Since July, electronic data exchanges between the DGI and customs have facilitated the identification of taxpayers whose data are not consistent between the two databases. A joint tax/customs committee was formed to monitor the use of data and audits. The latter are divided between the joint audit committee (16 enterprises) and the DGI tax audit directorate (14 enterprises), with the remaining taxpayers being transferred to operational units for auditing and the reinforcement of taxpayer compliance.

- The action plan agreed with the technical assistance missions will be followed with a view to finalizing the transfer of VAT taxpayer monitoring from the small enterprise and individual tax centers (CIPEPs) to the medium-sized enterprise tax centers (CIMEs) and the Large Enterprise Directorate (DGE). Both physical files and taxpayer accounts are being transferred. These companies, which were undertaxed in the CIPEPs, will be audited.

- The list of VAT taxpayers managed by the CIMEs (Owendo and Port-Gentil) and by the DGE has been published.

F. Other Structural Public Financial Management Reforms

23. **The government reaffirms its commitment to improving fiscal transparency through a series of actions:**

- We are committed to further improving the transparency of the management of oil and mining revenues. To that end, the government will step up its efforts to submit the country's application to the Extractive Industries Transparency Initiative (EITI) by end-September 2019 (**proposed new structural benchmark**). In any case, the government will prepare a report by end-June 2019 on the status of 2018 petroleum assets and of oil sales, and revenue: the value of the government's exhaustible natural resource assets and its contribution to their use will thus be made public. To that end, the government will publish a report containing an estimate of the volume and value of key natural resource assets, as well as an estimate of the volume and value of sales and fiscal revenue in the preceding fiscal year **(proposed new structural benchmark, end-June 2019)**.

- Efforts to include in the budget a complete overview of the revenue, expenditure, and financing of all central government entities will be stepped up. Progress has already been made in this area since the start of the program, as the budget law clearly identifies revenue allocations and the assignment of proceeds. Special accounts financed with earmarked revenue have also been set up to track budgetary operations financed with revenue directly linked to the associated expenditure. In continuing these actions, the government commits to eliminating, for the draft budget for the upcoming 2020 fiscal year, any earmarking of revenue not compliant with the criteria set by law **(proposed new structural benchmark, October 2019)**. The objective is to limit the earmarking of revenue to the strict exceptions provided for in the organic budget law, in order to observe the principles of budget unity and universality, limit the risk of off-budget expenditure financed with earmarked revenue, and increase fiscal space.

- The publication of quarterly budget execution reports is becoming a regular occurrence (**ongoing structural benchmark**). Five quarterly budget execution reports have been published since the start of the program. The most recent of them pertains to the second quarter of 2018 and was published at end-September 2018. As for a new fiscal year, the publication deadline of 55 days specified in the program in conformity with basic international practices has not been observed. However, steady progress has been made in expediting the production and online posting of these reports. The government met its commitment to post the report for the third quarter of 2018 online, within the specified deadline of November 24, 2018.

24. **The government reaffirms its commitment to subject all major investment projects to a cost-benefit analysis** (**structural benchmark, end-December 2018) as well as an open bidding process**. The draft budget law does not include any new projects of more than CFAF 20 billion, but if necessary, the government remains committed to performing and publishing cost-benefit analyses for new projects of more than CFAF 20 billion included in future budget laws. Moreover, as of

September 30, 2018, single tenders accounted for 39 percent of the total and were valued at CFAF 67.9 billion. Compared to the preceding fiscal year, single tenders accounted for 89 percent (CFAF 211 billion) of the total in 2017, versus 39 percent in 2018. This increase is consistent with gradual observance of the legal threshold of 15 percent specified in the public procurement code. The DGBFIP is moving toward bundled tender invitations to reduce the prevalence of single tendering. Starting in the first quarter of 2019, public procurement statistics will be published periodically and will indicate the nature and the amount of single tenders and the waivers granted for negotiated procedures.

25. **Improvements will be consolidated in the financial oversight of public entities and central government's agencies.** The administrative unit responsible for gathering and coordinating all the financial information on those entities as well as harmonizing the conditions governing the exercise of financial oversight was created by Decree No. 000012/MBCP of October 23, 2018 on the establishment, powers, and composition of the unit responsible for the financial oversight of State public entities. The new draft decree establishing the harmonized status of administrative public entities is being circulated for initialing and signatures and will be published in the first quarter of 2019. The unit responsible for the financial oversight of public entities will be operational in 2019; we will assign personnel to the unit and provide the resources needed to carry out its responsibilities. The law creating the Gabonese Strategic Investment Fund (FGIS) will be amended and provides now for the representation of the Ministries of Economy and the Budget on the FGIS board of directors. The objectives of the government's shareholding policy were also defined by FGIS, and the government maintains and updates a table of performance indicators based on the comprehensive census of public enterprises in which the government has an equity interest, and of its representatives.

26. **The government is continuing its efforts to implement the public financial management reforms specified in the CEMAC directives.** The provisions of the organic budget law defining the rules for the transfer of appropriations will be revised to enable their observance in conformity with the principles set out in the community directives. The implementation of all the reforms specified in the organic budget law and the texts transposing the CEMAC directives on public financial management remains a priority. For Gabon, the review of implementation of the program budgeting reform involves sharing with the CEMAC its feedback on the reform management, particularly as concerns the fiscal architecture, the treatment of tax expenditure, and the streamlining of the management chain.

G. Social Sector Policies

27. **The government is committed to stepping up its efforts to ensure the predictability and quality of social expenditure.** The rate of social expenditure execution highlights a number of weaknesses that are mainly explained by the constraints in initiating the bidding process in connection with the school construction program, and delays in approving the 2018 supplementary budget and in clearing of payment orders. Despite the tight liquidity position, the Government will strengthen its efforts to prioritize and accelerate the execution of social spending. To that end, the Government will more comprehensively define the scope of social spending, by including social

benefits and pensions provided to civil servants, subsidies on butane gas and kerosene, and the costs of the electrification and hydraulic installations programs for rural areas that do not have access to the public water and electricity network. In addition, the government will improve the targeting of the poor and vulnerable population, based on the new poverty profile established following the 2017 Poverty Assessment Survey (EGEP) and pursuant to Law No. 001/2018 of September 18, 2018 (amending Article 11 of Law No. 034/2007 of 28 January ratifying Ordinance No. 022 / PR / 2007 of 21 August 2007) that establishes a health insurance and social guarantee system in Gabon. This law provides for a better definition of the poor in Gabon (GEF). The government thus hopes to simplify the current social network system, optimize the use of resources allocated for social policies, and respond systemically and appropriately to the various aspects of poverty and vulnerability. The government is committed to formalizing the creation of a GEF (Economically Disadvantaged Gabonese) commission responsible for the drafting of laws aimed at reducing inclusion errors and, in particular, a clear roadmap indicating stages, timetables, necessary resources, and responsibilities.

H. Financial Sector

28. **The clearance of domestic arrears will help reverse the upward trend of nonperforming loans.** The financial system remains relatively stable and profitable. However, nonperforming loans have continued to increase, reaching 17 percent of total loans lending at end-June 2018 (from 15 percent at end-March 2018). With the "Club de Libreville" and securitization, the government intends to convert a large part of its domestic debt into marketable securities. This will improve the cashflow position of many small- and medium-sized enterprises (SMEs) and reduce nonperforming loans. Furthermore, the government will finalize by March 2019 a strategy for resolving nonperforming loans (**proposed reset structural benchmark).** A first draft of the strategy will be sent for comment to the IMF at the end of January 2019. The strategy, which will be developed by the ministries of Economy and Justice in consultation with the bankers' association, will focused on strengthening the judicial branch, particularly through the training of judges specialized in banking disputes, the improvement of judicial procedures, the creation of commercial courts, and the modernization of commercial credit and real estate registry.

29. **We will expedite the orderly liquidation of public banks.** Since COBAC's decision in September to withdraw the license of the Gabonese Development Bank (BGD), the three public banks (Postebank, the Bank of Habitat of Gabon (BHG) and the BGD) have been under liquidation. In order to help the independent liquidators to conduct an orderly liquidation of the three banks at the lowest fiscal cost, the liquidators will form a liquidation support group. Independently, the authorities will appoint their representatives by the end of January 2019 (**proposed new structural benchmark**). This group will include all stakeholders (liquidator, authorities, shareholders and supervisors) and observers if needed. Group members must not present any conflict of interest. The composition of the groups will be communicated to the IMF by the end of January 2019.

30. **The government is committed to sell its non-strategic investment in the BICIG as quickly as possible.** The resale process shall begin within the three months following the COBAC

approval of the acquisition. If the COBAC does not approve the transaction, the state shall join the main shareholder in selling its existing shareholding, so that the new strategic investor can enjoy a controlling majority in the bank. A competitive bidding process in accordance with best international practices shall be organized. Until the sale is completed, the government agrees to refrain from influencing the governance and operations of the bank.

I. Promotion of the Private Sector

31. **The government renews its commitment to implementing structural and institutional reforms to promote growth driven by the private sector.** To that end, we will continue to improve and enhance the attractiveness of the business environment in Gabon. In the short term, efforts will remain focused on two essential pillars. First, the government remains determined to further strengthen financial stability and ensure that the financial sector is able to play a major role in supporting the private sector. Furthermore, implementation of the Economic Recovery Program (PRE) and the Emerging Gabon Strategic Plan (*Plan Stratégique Gabon Emergent*) will continue. We will also continue to make the business climate more attractive. Mainly, we will continue to strengthen the judicial system, particularly with the launch of the Arbitration Division, the training of specialized judges, and the creation of commercial courts.

32. **We will reorganize the public financing of SMEs in order to promote economic development and financial inclusion.** Our actions in that context will be guided by three core principles: (a) authorize only indirect public financing through commercial banks; (b) pool all SME public financing tools in order to improve their impact, their coordination, and their visibility; (c) support SMEs in the preparation of financing and business plans with a view to obtaining commercial bank financing. After concertation among the involved ministries, the government will make its proposal for a grouping of the instruments and an action plan to improve SME financing in the short term.

J. Statistics

33. Following the promulgation of Law No. 0015/2014 establishing and organizing the National Statistics System (SSN), the government has begun to implement its ambitious program for the reorganization of economic statistics in Gabon. The completed poverty survey will be published at end-2018. It is to be followed by the organization of two major collection initiatives:

- The ongoing third Demographic and Health Survey (EDSG III), the results of which are expected by end-2019;
- The General Agricultural Census (RGA), the pilot phase of which is being analyzed in preparation for an official launch date set for December 2018.

Other collection initiatives are planned for 2019:

- The education yearbook initiative, the results of which are expected in May 2019;
- The enterprise survey and the informal sector survey currently in preparation.

With the support of AFRITAC and the BEAC, the government has also stepped up its efforts to improve quality, coverage, and timeliness of data regarding the national accounts, the fiscal sector, and the balance of payments.

34. **The 2011–16 national accounts were revised, and a preliminary 2017 version is available.** However, the possibility of adjustments related to the wood industry requires assigning priority to finalizing the process of assessing the completeness of coverage of the new industrial base generated by the activity in the ZERP (Preferential Economic Zone) of Nkok. At the conclusion of this supplementary activity, publication of the final 2017 accounts could be considered, as well as the possibility of completing the 2001–16 series as provided for in the SNA 93 methodology. Following transposition and transmission of the 2012–16 budget statistics from the TOFE, in accordance with the new classification of the government statistics manual (GSM) and its submission to the IMF statistics databases (one of the first countries in the sub-region), the government will begin to transpose the 2017 TOFE for submission to the IMF in 2019.

K. Program Monitoring

35. Program implementation will be monitored through prior actions, semiannual reviews, quantitative performance criteria and indicative targets, ongoing performance criteria, and structural benchmarks. The fourth review is scheduled for June 2019, based on the quantitative performance criteria for end-December 2018, ongoing performance criteria, and relevant structural benchmarks. For all the reviews, the quantitative performance criteria will include: a floor on the primary fiscal balance, excluding oil revenue (payment order basis); a ceiling on the stock of net banking system claims on the central government; a ceiling on the stock of central bank claims on the central government, excluding the use of IMF credit; a ceiling on borrowing or guaranteeing external debt (program and project); a floor on government tax revenue, excluding oil revenue; and a ceiling on the accumulation of new external arrears by the central government. The prior actions and structural benchmarks are shown in Tables 3 and 4. The quantitative targets for the target dates up to end-December 2019, as well as a continuous quantitative performance criterion, are shown in Tables 1 and 2.

Table 1. Gabon: Quantitative Program Targets, 2018[1,2]

(Billions of CFA francs, unless otherwise indicated)

	2018													
	March				June					September				December
	Prog.[3]	Adj.	Act.	Status	Prog.[3]	Adj.	Est.[4]	Act.	Status	IT[4]	Adj.	Act.	Status	PC[4]
	IT				PC									
I Quantitative Performance Criteria														
Floor on primary fiscal balance, excluding oil revenue (on a payment order basis)[5]	-104.3	-24.3	-194.5	**Not Met**	-173.0	-93.0	-285.3	-257.0	**Not Met**	-333.8	-380.2	-343.9	**Met**	-446.2
Unadjusted target (floor)		-104.3				-173.0					-333.8			
Adjustment for lower (higher) than expected external program disbursements		80.0				80.0					-46.4			
Ceiling on stock of net claims of the banking system on the central government[6]	861.1	941.1	864.7	**Met**	878.3	958.3	913.1	876.8	**Met**	1087.9	1041.5	919.6	**Met**	826.0
Unadjusted target (ceiling)		861.1				878.3					1087.9			
Adjustment for lower (higher) than expected external program disbursements		80.0				80.0					-46.4			
Adjustment for oil revenue shortfall due to international price movements		0.0				0.0					0.0			
Ceiling on central bank net claims on central government, excluding use of IMF credit	219.2	...	341.6	**Not Met**	193.3	...	382.5	338.3	**Not Met**	382.5	...	315.3	**Met**	107.2
Ceiling on contracting or guaranteeing of external debt (program and project)[7]	99.7	99.7	11.1	**Met**	205.9	125.9	26.7	22.1	**Met**	143.8	193.6	191.9	**Met**	522.8
Unadjusted target (ceiling)		99.7				205.9					143.8			
Adjustment for early (late) external program disbursements		0.0				-80.0					46.4			
Adjustment for variation in financing conditions		0.0				0.0					3.4			
Floor on government tax revenue, excluding oil revenue[8]	275.1	...	179.9	**Not Met**	570.5	...	423.1	462.0	**Not Met**	596.3	...	694.4	**Met**	941.3
II Continuous Performance Criterion														
Ceiling on accumulation of new external arrears by the central government[9]	0	...	46	**Not Met**	0	...	78	78	**Not Met**	0	...	14.5	**Not Met**	0
III Indicative Targets														
Ceiling on the stock of domestic arrears	379.0	...	593.3	**Not Met**	304.5	...	527.7	582.6	**Not Met**	465.4	...	547.0	**Not Met**	372.6
Floor on social protection spending[10]	30.3	...	...	**Not available**	68.2	...	...	24.8	**Not Met**	150.0	...	93.6	**Not Met**	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, 2018 for 2018 targets, and cumulative amount from January 1, 2019 for 2019 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; CR/17/408).

4/ Staff report on the Second Review Under the Extended Arrangement Under the Extended Fund Facility (July 24, 2018; CR/18/269).

5/ The performance criterion will be adjusted upward or downward for any lower or higher external program disbursements, to a maximum of CFAF 80 billion. End-September 2018 adjustment linked to higher-than-expected disbursement of foreign-financed capital projects.

6/ 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).

7/ The performance criterion will be adjusted upward (downward) in case where early (late) disbursements of specifically agreed and identified financing flows take place. This PC is monitored with respect to the contracting of debt on a disbursement basis.

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/ Reports the current stock of new arrears that have been accumulated since the latest review. The latest estimate is as of December 6, 2018.

10/ 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, 2019[1, 2]

(Billions of CFA francs, unless otherwise indicated)

		2019					
		March		June		September	December
		IT[3]	Rev. IT	IT[3]	PC	IT	IT
I	**Quantitative Performance Criteria**						
	Floor on primary fiscal balance, excluding oil revenue (on a payment order basis)[4]	-76.5	-125.6	-13.7	-147.1	-232.8	-307.3
	Ceiling on stock of net claims of the banking system on the central government[5]	809.5	766.5	870.1	802.3	835.7	820.0
	Ceiling on central bank net claims on central government, excluding use of IMF credit	107.2	57.0	107.2	57.0	57.0	-64.5
	Ceiling on contracting or guaranteeing of external debt (program and project)[6]	73.5	285.4	227.8	412.2	458.1	585.0
	Floor on government tax revenue, excluding oil revenue[7]	199.7	214.0	529.6	543.1	784.2	1062.4
II	**Continuous Performance Criterion**						
	Ceiling on accumulation of new external arrears by the central government[8]	0	0	0	0	0	0
III	**Indicative Targets**						
	Ceiling on the stock of domestic arrears	354.0	287.6	333.9	259.3	327.3	344.0
	Floor on social protection spending[9]	…	90.8	…	181.6	272.4	363.2

Sources: Gabonese authorities and IMF staff estimates.

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

2/ Cumulative amount from January 1, 2018 for 2018 targets, and cumulative amount from January 1, 2019 for 2019 targets. Targets are set for the end of the respective month, unless otherwise

3/ Staff report on the Second Review Under the Extended Arrangement Under the Extended Fund Facility (July 24, 2018; CR/18/269).

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. This PC is monitored with respect to the contracting of debt on a disbursement basis.

7/ 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

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

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

Table 3. Gabon: Structural Benchmarks for 2017–18

Sector/Measure	Macroeconomic Rationale	Related Documentation	Timing	Status	Proposal
Public Financial Management (PFM)					
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-Sep. 2017 (for preceding quarter)	Met[1]	No change
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-Feb. 2018[2]	Not Met[3]	No change
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-Sep. 2018	Pending[4]	
Complete an independent audit of 2015 and 2016 domestic expenditure arrears.[5]	Reduce budget risks	Publication of the audit report in the webpage of the Ministry of Economy.	End-Sep. 2018	Not Met	End-April 2019
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-Oct. 2018	Met (9/21/18)	

[1] The first report was published in July 2018.

[2] 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).

[3] Reports have been published with lags exceeding the 55-day criterion. The report for Q3 2018 is expected to be published in compliance with the time lag.

[4] Pending signature of the President and publication of the decree.

[5] Propose to add 2017 domestic expenditure arrears to the scope of the independent audit.

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

Sector/Measure	Macroeconomic Rationale	Related Documentation	Timing	Status	Proposal
Public Financial Management (PFM)					
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-Dec. 2018	In progress	No change
Create a single unit responsible for the financial oversight of public entities, including for gathering and coordinating financial information provided by these entities.	Reduce fiscal risks	Copy of the enactment creating the policy unit and detailing its tasks.	End-Sep. 2018	Met (10/23/18)	
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. and a list of accounts and their balances established at the central bank.	End-Sep. 2018	Not Met	**Prior Action**
Tax Policy/Revenue Administration					
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-Mar. 2018	Met (09/27/18)	
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-Jul. 2018	Met (End-July 2018)	
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-Jul. 2018	Not Met; Completed (November 2018)	**Prior Action**
Collect 40 percent of recoverable tax arrears.	Boost revenue collection	Reports on completed tax adjustments.	End-Sep. 2018	Not Met	End-Dec. 2018
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-Oct. 2018	Met (November 2018)	

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

Sector/Measure	Macroeconomic Rationale	Related Documentation	Timing	Status	Proposal
Tax Policy/Revenue Administration					
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-Dec. 2018	In progress	No change
Debt Management					
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.[1]	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-Jul. 2018	Met	
Financial Sector					
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-Mar. 2018	Not Met[2]	Done; in liquidation as of Sep. 2018
Develop a strategy and an action plan for the clearance of overdue loans, including action plans to improve the effectiveness of adjudication and modernize trade and real estate registries.	Reduce financial sector vulnerabilities and strengthen the business climate	Copy of the strategy document	End-Oct. 2018	Not Met	End-Mar. 2019

[1] This strategy should be based on a quarterly cash flow plan.

[2] As of September 2018, all three banks are in liquidation, obviating any further need for a bank resolution strategy.,

Table 4. Gabon: Proposed New Structural Conditionality

Sector/Measure	Macroeconomic Rationale	Related Documentation	Proposed Timing
Submission to Senate of a FY2019 budget and supporting measures, consistent with the budget objective of the government's economic program supported by the IMF.	Fiscal sustainability	A letter to the IMF signed by the Minister of Budget detailing the government's proposed amendments to the proposed 2019 budget.	**Prior Action**
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.	**Prior Action**
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. and a list of accounts and their balances established at the central bank.	**Prior Action**
Public Financial Management (PFM)			
TSA consolidation through closure of all central government accounts opened with commercial banks	Improve and rationalize cash flow management	Listed of closed accounts including their balances, and a list of accounts and their balances established at the central bank.	End-Mar. 2019
Publish a report disclosing the volume and value of major oil assets, as well as the volume and value of the previous year's sales and fiscal revenue.	Improve transparency of oil revenues and fiscal reporting	Copy of the report and verification of online posting on the Budget Ministry's website.	End-Jun. 2019
Submission of application for EITI membership.	Improve transparency of oil revenues and fiscal reporting	Copy of the application submitted to EITI.	End-Sep. 2019
Eliminate noncompliant earmarking of revenues and limit it to exceptions provided for by law.	Reduce budget risks	(1) Report submitted to Fund staff on eliminated earmarked revenues and justifications for earmarked revenues maintained in the 2020 draft budget law; (2) Copy of the 2020 draft budget law including details on earmarked revenues.	End-Oct. 2019
Financial Sector			
Nominate representatives to the liquidation support group for each state bank in liquidation.	Reduce financial sector vulnerabilities and fiscal risks	Copy of the terms of reference of the liquidation support groups and the list of nominated government representatives signed by Minister of Economy	End-Jan. 2019

Attachment II. Technical Memorandum of Understanding

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 November 20, 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 and June 30, 019; the same variables are an indicative target for March 30, 2019, and September 30, 2019, and December 31, 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 553,07 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 1.1860 U.S. dollars, Pound Sterling valued at 0.7408 U.S. dollars, the Chinese Yuan valued at 6.4766 U.S. dollars, the Special Drawing Right (SDR) valued at 1.4190 U.S. dollars. Official gold holdings were valued at 1,260.98 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 Tresor*) 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.

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

Cumulative flows from the beginning of the year	Prog. (In US$ Millions)
External loans for budget support	
End December 2018	409.3
End March 2019	433.0
End June 2019	579.4
End September 2019	579.4
End December 2019	725.8
External loans for project financing	
End December 2018	311.8
End March 2019	71.4
End June 2019	142.8
End September 2019	214.1
End December 2019	285.5
External loans from commercial sources and international capital markets	
End December 2018	312.2
End March 2019	11.6
End June 2019	23.2
End September 2019	34.8
End December 2019	46.5

Sources: Gabonese authorities and IMF staff projections.

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.

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 876.8 billion as of June 30, 2018 (Text Table 2).

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

Text Table 2. Gabon: Net Claims on Central Government

(Billions of CFA francs, stock)

	Dec-16	Dec-17	Jun-18
Banking system, Net claims on central government	653.7	664.4	876.8
Central Bank, Net claims on central government	220.6	249.3	451.3
Claims on central government	452.7	564.2	566.0
Loans to central government	452.5	452.5	452.5
Use of IMF credit	0.0	111.3	113.1
Other	0.2	0.5	0.5
Liabilities to central government	232.1	315.0	114.7
Treasury vault cash	36.8	41.5	40.4
Fund for Future Generations/Sovereign Wealth Fund	150.2	47.2	10.8
Treasury current accounts at the BEAC	45.1	226.2	63.5
Other Depository Corporations, net claims on central government	433.1	415.2	425.5
Claims on central government	621.7	528.5	538.3
Securities Central Government	517.6	461.0	446.9
Regional bonds	104.2	67.5	91.4
Liabilities to central government	188.6	113.3	112.8
Treasury deposits	42.2	24.8	27.2
Other deposits	146.4	88.6	85.6
CCA	0.0	0.0	0.0

Source: BEAC

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$71.900 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 2018-19, 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$71.900 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 2018–19, 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:

i. 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);

ii. 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

iii. 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 CG, 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, once disbursed, or guaranteed by the CG. Guaranteeing external debt triggers the nonobservance of the PC regardless of whether or not a disbursement has been made. 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 within 2 weeks of any planned contracting or guaranteeing of external debt and the related conditions before the debt is either contracted or guaranteed by the CG. Once there is agreement with IMF staff of the planned contracting or guaranteeing of external debt and the debt is either contracted or guaranteed by the CG, their disbursement will become part of the monitored disbursements of existing debts.

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 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, 2018.

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

B. Cumulative Floor on Central Government Social Spending

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

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

III. PROGRAM MONITORING

A. Reporting Requirements

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

- the comprehensive monetary survey, the central bank balance sheet, and the consolidated balance sheet of the commercial banks (electronic file);
- the central government financial operations (*opérations financières de l'Etat)* on a payment order basis (*ordonnancements*), identifying any discrepancy between the fiscal deficit and changes in domestic and external arrears and in the treasury float, on the one hand, and total net domestic bank/nonbank and net external financing, on the other (electronic file);
- the detailed breakdown of oil revenue by type of revenue (royalties, profit tax, dividends, boni 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, 2018; the net accumulation of new float during 2018, defined in paragraph 6 as the difference between payment orders (*ordonnancements*) and payments made (cash basis), as well as the repayment of pre-2018 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 November 20, 2018.

34. 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.

Supplementary Letter of Intent

December 14, 2018

The Managing Director
International Monetary Fund
Washington, DC, 20431
USA

Dear Managing Director,

Further to the Letter of Intent dated November 20, 2018, we have communicated to staff that the total amount of new external arrears that have been accumulated since the Board concluded the second review under the Extended Arrangement is CFAF 14.9 billion—and not CFAF 14.5 billion as reported in the staff report and the Memorandum of Economic and Financial Policies.

Sincerely yours,

/s/

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

Statement by Mr. Mohamed-Lemine Raghani, Executive Director for the Gabon and Mr. Thierry Nguema-Affane, Senior Advisor to the Executive Director

Executive Board Meeting

December 19, 2018

1. On behalf on the Gabonese authorities, we would like to thank the IMF Executive Board, management and staff for their continued support to Gabon's economic recovery program (PRE) in the context of the Extended Fund Facility (EFF).

2. Over the past few months, the Gabonese authorities followed through on their commitment to implement the fiscal adjustment package announced in the revised 2018 budget to keep their program on track. As a result, program implementation has improved since the conclusion of the second review in August 2018. Five out of seven indicative targets at end-September 2018 were met and progress has been made in the reform agenda, notably in the fiscal sector, albeit at a slower pace than expected in some instances. These achievements demonstrate the authorities' continued commitment to their program and the regional efforts to strengthen external stability in the CEMAC. Going forward, they will pursue the implementation of reforms aimed at strengthening macroeconomic stability and make further progress to improve the business environment and foster economic diversification to reduce dependence on oil. The authorities submitted a draft budget law for 2019 that is consistent with the Fund-supported program's objectives. Against this backdrop, the Gabonese authorities request the completion of the third review under the EFF arrangement.

Recent Economic Developments and Program Performance

3. The Gabonese economy is recovering albeit at a pace slower-than expected. Economic activity picked up in 2018, driven mainly by buoyant agricultural and mining sectors. However, overall growth in 2018 will be lower than previously projected at around 1.2 percent, owing to under-execution of the public investment program and shortfalls in oil production. Inflation increased slightly above the regional convergence criterion of 3 percent at end-September 2018 and will increase to 4 percent by end-year due to higher food prices following the elimination of related subsidies and higher fuel prices reflecting the pass-through of rising international oil prices. The trade balance has improved aided by higher oil prices despite shortfalls in oil and manganese export volumes.

4. Fiscal performance at end-September 2018 exceeded expectations. Sustained domestic revenue mobilization resulted in improved non-oil revenue performance. However, expenditures were also above projections due to the costs of the legislative

and local elections held in October 2018 and delays in the rationalization of public agencies. Nevertheless, the non-oil fiscal deficit at end-September 2018 settled 0.4 percentage points of non-oil GDP lower than programmed. Furthermore, the non-oil fiscal deficit could outperform the program's target by 0.7 percentage points, should the current fiscal stance be maintained throughout the last quarter of 2018. This will represent a total adjustment of 4.6 percentage points of non-oil GDP since the beginning of the program, which is a significant contribution to efforts in preserving external stability in the CEMAC region.

5. Public debt will decline to below 60 percent of GDP in 2018 as it continues to be serviced and arrears are being repaid. At times liquidity constraints led to the occurrence of some short-term arrears, both external and domestic. Nevertheless, the strategy for the settlement of public debt arrears as presented in the second review is being implemented. In particular, all external debt arrears to official creditors have been repaid and external arrears on non-guaranteed commercial loans should be fully settled by end-December 2018. The repayment of the domestic debt arrears to the "Club de Libreville" creditors has started, consistent with the agreed repayment schedule. A contract with the firm selected to audit domestic arrears has been signed and the report of the audit should be available by end-April 2019.

6. Fiscal reforms to improve domestic revenue mobilization and rationalize expenditure progressed in the second half of 2018. In particular, efforts to broaden the tax base continued, with among others, the identification and regularization of the new VAT taxpayers, and the elimination of exemptions to companies holding public procurements and other government contracts. Moreover, efforts to collect of outstanding taxes picked up, but liquidity constraints of targeted companies limited progress in this area. At the same time, several key measures introduced in the revised 2018 budget law to reduce expenditures, notably the wage bill – such as the downsizing of the Presidency and the consolidation of public agencies – are being implemented. As regard fiscal transparency, a unit tasked with financial oversight of public entities has been created and will be fully operational in 2019.

7. Progress is also being made in improving cash management with a view to preventing resurgence of debt arrears. The authorities welcomed the Fund TA in November 2018 whose recommendations are already being implemented, notably the development of a cash flow plan for 2019. The consolidation of the treasury single account (TSA) has started with the closure of all accounts of public entities at the state depository corporation (Caisse des dépots et des consignations, CDC) and the transfer of their balances to the TSA. The consolidation of the TSA will be completed by end-March 2019 with the closure of all public accounts opened with commercial banks.

8. Monetary conditions continue to improve as money supply grew by 23 percent, supported essentially by rising private sector deposits. The financial system remains stable and profitable despite the deterioration of asset quality. The resolution of public

banks is advancing, with all three banks now under liquidation following the recent decision by the regional supervisory body COBAC to withdraw the operating license of the development bank.

9. As noted above, the implementation of the program has improved since the last review. Five out of seven indicative targets for end-September 2018 were met. The two indicative targets on the stock of domestic arrears and priority social spending were missed due mainly to strong liquidity pressures and low execution of investment budget in priority sectors. The continuous performance criterion (PC) on external arrears was also missed following the emergence of small amount of external arrears, which has been cleared in early December 2018. The Gabonese authorities are requesting a waiver for the nonobservance of that PC. Most of the structural benchmarks have been observed albeit a few of them with delays. As indicated in the staff report, the authorities set up a technical committee tasked with closely monitoring the Fund-supported program to improve program implementation and coordination across the government.

Policies for 2019 and beyond

10. The recovery is expected to accelerate, and growth will reach 3.1 percent in 2019, as the oil production outlook is improving and activity in forestry, mining and agriculture sectors is projected to remain strong. The economy will also benefit from the launch of several PPP projects. Inflation is expected to decline from 4 percent in 2018 to 3 percent in 2019. The medium-term prospects remain broadly promising, supported by continuous flows of FDI in the non-oil sector and effective implementation of the authorities' ambitious reform program to address the challenges facing the Gabonese economy. As indicated in their Memorandum of Economic and Financial Policies (MEFP), the authorities plan to maintain the policy stance and reforms agreed under the EFF arrangement to strengthen macroeconomic stability, promote strong, inclusive and private sector-led growth, while contributing to the regional external stability.

11. The authorities remain committed to pursuing fiscal consolidation and addressing weaknesses in the public financial management to deliver quality adjustment and avoid further debt accumulation. They submitted a draft 2019 budget law to the Parliament which targets a lower fiscal deficit of 4.5 percent of nonoil GDP, as measures initiated in 2018 become fully effective and new measures are introduced.
The mobilization of domestic resource and rationalization of expenditures remain top priorities in the fiscal program. To this end, initiatives to streamline and control tax and customs exemptions will continue with a view to ensuring that only exemptions with legal basis remain. On the expenditure side, measures to further reduce nonessential expenditure and the wage bill will be implemented. These include the continued consolidation of public agencies and the formalization of organizational frameworks for the administrative services. These efforts will be supported by the World Bank's technical assistance. As in the revised 2018 budget law, the draft 2019 budget includes an automatic mechanism to adjust expenditures in case of revenue shortfalls.

12. The fiscal reform agenda for 2019 places a special emphasis on improving fiscal transparency and governance, notably in oil and mining revenue and public financial management. In particular, the authorities will step up their efforts to submit the country's application to the EITI in 2019. Moreover, the law creating the Gabonese Strategic Investment Fund (FGIS) will be amended to allow participation of the government official representatives on the FGIS Board of Governors. Moreover, the transposition of CEMAC directives on public financial management into the Gabonese legislation will continue.

13. The authorities are committed to improving the execution and reporting of social spending during fiscal consolidation. They recognize that the low execution rate of social spending compared to program target needs to be addressed and, in this vein, they are accelerating social spending by end-2018. That said, as the staff report notes, the authorities believe that the definition of social spending do not reflect accurately the efforts made toward social protection. Therefore, they will review the coverage of that program indicator by including various benefits already made to the most vulnerable groups of the population and improve targeting of poor based on the findings of the 2017 Household Survey, with the assistance of the World Bank. The monitoring of social expenditure execution will benefit from the ongoing modernization of public expenditure management.

14. The strengthening of the financial system will continue. First, the authorities recognize that an effective clearance of domestic arrears will improve corporations' cash flow positions, which in turn will help bring NPLs down. Likewise, the authorities plan to convert part of its domestic debt into marketable securities. A strategy for resolving NPLs will be prepared by end-Mach 2019. The liquidation of the public banks will be expedited with the assistance of a recently-created liquidation support group whose members, to be appointed by end-January 2019, will represent all stakeholders and must not present any conflict of interest.

15. The authorities maintain their intention to implement structural and institutional reforms aimed at further advancing economic diversification and promoting sustainable and inclusive private-sector-led growth. Besides structural reforms in the fiscal and financial sector, their reform program focuses on making the financial sector a major player in bolstering private sector development, notably for the small- and medium-sized enterprises (SMEs), and strengthening the judicial system, with the launch of the Arbitration Division, the training of specialized judges and the creation of commercial courts.

Conclusion

16. The Gabonese program performance has improved since August 2018 with the implementation of the bold adjustment measures introduced in the revised 2018 budget. The authorities remain committed to the program's objectives and recognize that

adjustment efforts need to be sustained to preserve fiscal sustainability and external stability. In particular, they are determined to pursue policies and reforms aimed at strengthening macroeconomic stability and reducing dependence on oil by unlocking growth potential in the nonoil sectors, with the assistance of the Fund and other developments partners. In light of the satisfactory program performance, including through recent corrective measures, and the authorities' resolve to pursue their macroeconomic and structural transformation objectives, Directors' favorable consideration of the authorities' request for the completion of the third review under the EFF will be appreciated.