

Gabon: Fourth Review Under the Stand-By Arrangement and Review of Financing Assurances—Staff Report; Staff Statement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Gabon

In the context of the fourth review under the Stand-By Arrangement and review of financing assurances with Gabon, the following documents have been released and are included in this package:

- the staff paper for the Fourth Review Under the Stand-By Arrangement and Review of Financing Assurances, prepared by a staff team of the IMF, following discussions that ended on May 29, 2005, with the officials of Gabon on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 24, 2005. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- a staff statement of July 8, 2005 updating information on recent developments.
- a Press Release summarizing the views of the Executive Board as expressed during its July 8, 2005 discussion of the staff report that completed the review.
- a statement by the 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*

*May also be included in Staff Report

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

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INTERNATIONAL MONETARY FUND

GABON

**Fourth Review Under the Stand-By Arrangement
and Review of Financing Assurances**

Prepared by the African Department
in consultation with other departments

Approved by David Nellor and Mark Plant

June 24, 2005

- Discussions on the fourth review under the Stand-By Arrangement were held in Libreville during May 16-29, 2005. The mission team comprised Mr. Nord (head), Mr. Melhado, Ms. Yackovlev (all AFR), Mr. Op de Beke (PDR), and Mr. Saadi Sedik (FAD). The mission was assisted by Mr. Randriamaholy, the Fund's Resident Representative in Gabon. Mr. Nguema-Affane (OED) attended most meetings. The mission met with Prime Minister Ntoutoume-Emane; Minister of State in Charge of Finance Toungui; the Central Bank National Director, Mr. Andzembé; and other senior officials. It worked closely with World Bank and African Development Bank staff on forestry issues, private sector development, and the Poverty Reduction Strategy Paper (PRSP).
- In support of the authorities' program, and following a staff-monitored program covering September-December 2003, the Executive Board approved a 13-month Stand-By Arrangement on May 28, 2004, in an amount of SDR 69.44 million (45 percent of quota). All three quarterly reviews of the program have been concluded, the last on March 28, 2005. At that point, against the background of a strong external position, the authorities declared that they would henceforth treat the arrangement as precautionary. To allow for the completion of the fourth review under the arrangement, the authorities requested, and the staff supports, its extension to July 31, 2005 (www.imf.org).
- Data provision is adequate for surveillance purposes. The database is fairly comprehensive, key information relevant for surveillance is generally compiled in accordance with international standards and is provided to the staff on a timely basis. However, data dissemination to the general public is limited.
- Gabon has accepted the obligations of Article VIII and maintains an exchange system free of restrictions on the making of payments and transfers for current international transactions.

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EXECUTIVE SUMMARY

The economy strengthened in the first quarter of 2005, led by a robust performance of non-oil exports. The outlook for the remainder of 2005 is positive and non-oil growth is expected to accelerate to at least 3 percent.

Rising non-oil revenue and continued expenditure control contributed to maintaining fiscal discipline and all quantitative performance criteria for end-March 2005 were observed. Fiscal policy is set to tighten in 2005, albeit by less than originally targeted, and the non-oil primary deficit is now expected to reach 6¾ percent of non-oil GDP. A less ambitious fiscal consolidation path is warranted by the lifting of short-term financing constraints as a result of high oil prices and a higher level of oil production than expected. At the same time, it will be imperative to persevere with fiscal adjustment over the medium term to address the inevitable decline of oil production and related government revenue.

After a strong start, structural reforms have slowed down, notably in the area of restructuring and privatizing public enterprises. Air Gabon is facing severe financial difficulties and the Government has decided to liquidate the company, settle its debts and other obligations, and find a strategic partner to establish a new airline with majority private ownership. A comprehensive audit of Air Gabon's assets and liabilities will be needed quickly to ringfence the budgetary implications of any plan going forward, and the new airline with government participation should be managed on a commercial basis without government interference.

Structural fiscal reforms are needed to improve the quality of public spending. Public expenditure management needs to be strengthened by improving both budget preparation and budget execution, notably the coherence between the recurrent and investment budgets. Moreover, the new civil service law needs to ensure a better grip on the wage bill; the Large Tax-payer Unit needs to become operational with the aim, over time, to improve the efficiency of tax collection, and the finances of local authorities need to be strengthened by continuing to broaden their tax base, notably for property taxation.

Strengthening governance and improving transparency are key ingredients of a better investment climate and the diversification of the Gabonese economy. Important steps have been taken but more needs to be done, notably regarding fiscal transparency and the regular dissemination of economic statistics.

The Gabonese authorities have expressed a desire to remain closely engaged with the Fund through a multi-year follow-up arrangement. The PRSP, which the Government intends to complete by August 2005, represents an opportunity to establish a strong foundation for a medium-term economic program warranting Fund support.

I. INTRODUCTION

1. **Against the background of declining prospects for the oil sector, the authorities put in place a far-reaching economic reform program in 2003.**¹ Anchored by fiscal consolidation, notably strict control of the wage bill, and ambitious structural reforms aimed at boosting non-oil growth, the authorities' program received support from the Fund through a staff monitored program during September-December 2003 and a 13-month Stand-By Arrangement approved in May 2004 in an amount of SDR 69.4 million. Both official and commercial creditors agreed to reschedule outstanding arrears and debt falling due during the period covered by the Fund arrangement. Debt service to Paris Club creditors—accounting for 80 percent of total debt—will amount to about US\$850 million over the program period.

2. **Implementation of the Government's current Fund-supported program has been satisfactory.** The first three reviews under the 2004-05 Stand-By Arrangement were completed and Gabon has made three equal purchases, for a total amount of SDR 41.7 million. Against the background of their strong external position, the authorities have treated the arrangement as precautionary since March 2005. The 13-month Stand-By Arrangement expires June 30, 2005, and the authorities have expressed a desire for a multi-year follow-up arrangement with the Fund for which discussions will start in the coming months. Meanwhile, in the attached memorandum of economic and financial policies the authorities describe progress in economic policy implementation under their program so far and specify their policies for the remainder of the 2005 (Appendix I). Summaries of Gabon's relations with the Fund and World Bank appear in Appendices II and III. Appendices IV and V contain a safeguard assessment for the Bank of Central African States (BEAC), and a summary of statistical issues, respectively.

II. RECENT ECONOMIC DEVELOPMENTS AND PERFORMANCE UNDER THE STAND-BY ARRANGEMENT

3. **GDP growth is estimated to have reached 1½ percent in 2004.** Non-oil growth picked up slightly to 2¼ percent, thanks mainly to rising output in manganese mining, but a decline in oil sector activity in 2004 represented a drag on overall growth performance. **Inflation** fell to ½ percent in 2004, reflecting wage moderation and the monetary discipline imposed by the exchange rate regime, and remained subdued in the first quarter of 2005. As a result, the real exchange rate depreciated slightly in 2004 and early 2005, and competitiveness remains satisfactory. The external position remains strong, with the current

¹ For a comprehensive discussion of the medium-term challenges facing Gabon, see *Staff Report for the 2005 Article IV Consultation, Third Review under the Stand-By Arrangement, and Review of Financing Assurances* (IMF Country Report No. 05/149) and *Selected Issues and Statistical Appendix* (IMF Country Report No. 05/147).

account surplus reaching 10½ percent of GDP in 2004 and Gabon's contribution to the BEAC's external assets more than doubling.

4. **The fiscal stance remained tight in 2004.** Buoyant oil prices contributed to an overall budget surplus of 7½ percent of GDP. Oil windfall revenue was used primarily to reduce domestic and external debt and, to a lesser extent, increase government deposits in the Fund for Future Generations (text table). At the same time, the non-oil primary deficit fell by ½ percentage point to 7¾ percent of non-oil GDP, reflecting both an improvement in non-oil revenue collection and expenditure restraint, notably on wages and salaries.

Gabon: Projected Uses of Oil Revenue Windfall, 2004-05
(In billions of CFA francs, unless otherwise indicated)

	2004		2005	
	Original Prog.	Prel.	Original Prog.	Proj. 1/
World oil price (Brent, U.S. dollars per barrel)	30.0	38.2	27.0	50.7
Exchange Rate (CFAF/US)	532.6	528.3		488.4
Oil production (in million tons)	13.3	13.6	11.5	13.4
Oil government revenue	508.1	600.0	412.7	709.9
Projected oil revenue windfall	0.0	91.9	0.0	297.2
Uses	0.0	91.9	0.0	297.2
Government deposits	0.0	26.7	0.0	70.1
Fund for Future Generations 2/	0.0	-26.7	0.0	70.1
Other BEAC deposits	0.0	35.5	0.0	0.0
Commercial Bank deposits	0.0	17.9	0.0	0.0
Repayment of BEAC's statutory advances	0.0	17.2	0.0	12.5
Lower recourse to external debt rescheduling 3/	0.0	34.1	0.0	96.1
Reduction in arrears	0.0	10.0	0.0	66.5
Treasury float (exc. FER)	0.0	17.0	0.0	41.5
FER arrears	0.0	-3.8	0.0	25.0
Wages	0.0	-3.2	0.0	0.0
Others (net)	0.0	3.9	0.0	52.0 4/

Sources: Authorities; and staff estimates and projections.

1/ Oil windfall projections for 2005 based on latest WEO oil price projections.

2/ For the 2004 preliminary, it represents a slower accumulation than targeted, not a decline in FFG deposits. For 2005 deposits reflect the application of the FFG law, which stipulates that 10 percent of the government oil revenues plus 50 percent of any windfall over the level projected in the government budget should go to the FFG.

3/ For 2004, this represents the agreement with Paris Club creditors to reduce the amount of rescheduled debt in case of an oil revenue windfall, net of any unsigned bilateral agreements. For 2005, it reflects the amount of debt service to Paris Club creditors in the second half of 2005.

4/ For 2005 reflects financial support for the restructuring of Air Gabon.

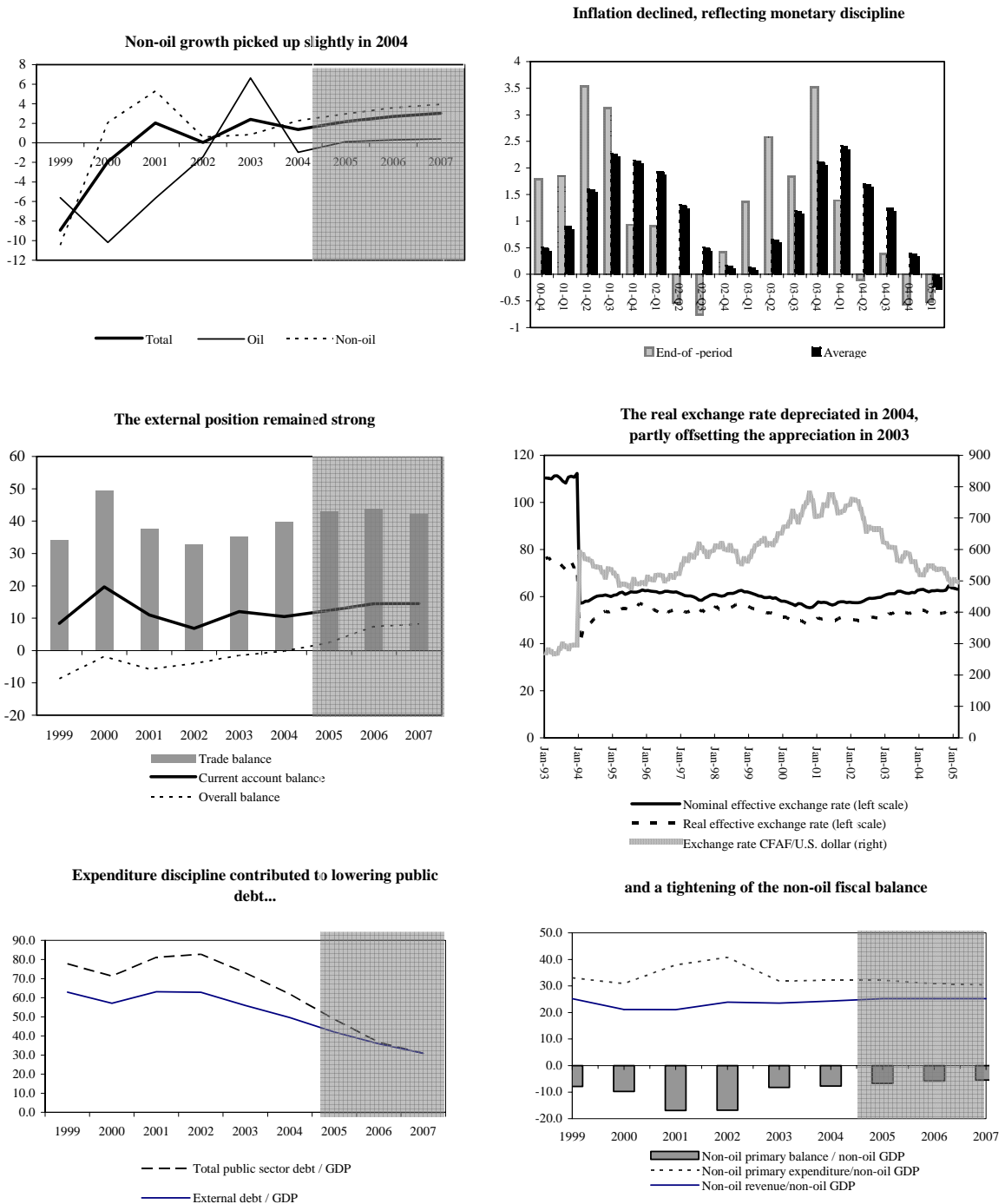
5. **The economy strengthened in the first quarter of 2005.** While oil production remained broadly stable, strong global demand for steel buoyed Gabon's production of manganese, which rose by more than 10 percent over the first quarter of 2004, and timber production and exports recovered sharply from their depressed levels of 2004. Rising output of construction materials and a robust increase in the consumption of energy provide additional evidence that a broad-based economic recovery is underway. Fiscal developments through April are broadly in line with the 2005 budget. While oil revenue is running slightly below projected levels, reflecting a widening discount for Gabon's oil relative to its Brent benchmark, the incipient economic recovery boosted non-oil revenue performance, notably VAT collection.²

6. **The economic outlook for 2005 is positive.** Oil production is expected to remain at its 2004 level, while prices are projected to remain high despite the deeper discount applied to Gabonese oil. In the non-oil sector, manganese and timber exports are expected to continue to perform strongly while domestic services, including construction, will benefit from the Government's improved payment record. As a result, non-oil GDP growth is expected to accelerate to at least 3 percent in 2005. Meanwhile, inflation is not expected to exceed 1 percent and the external position is expected to remain strong, with the current surplus rising to a projected 12½ percent of GDP and a further build-up of exchange reserves. Accordingly, external public debt is expected to fall from 50 percent of GDP at end-2004 to 42 percent by end-2005.

7. Since the debt rescheduling agreement concluded with Paris Club creditors on June 11, 2004, negotiations for bilateral agreements have been completed with all creditors with the exception of Brazil, with which the agreement is expected to be concluded soon. In view of Gabon's strong external position, the Government is not requesting any rescheduling of maturities falling due beyond end-June 2005. With respect to its debt to non-Paris Club bilateral creditors, Gabon continues to pursue negotiations with Saudi Arabia, China, Korea, and Libya. The agreement with the London Club of commercial creditors has been drafted and is expected to be signed by mid-July 2005.

² A shortfall in oil revenue collection in the first quarter of 2005 was more than compensated during April, and for the year as a whole sustained high prices—consistent with the latest WEO baseline—are expected to ensure that oil revenue will reach original targets for 2005.

Figure 1. Gabon: Recent Economic Developments



Source: Authorities and staff estimates.

III. REPORT ON THE DISCUSSIONS

8. Discussions centered on two broad issues. First, assessing performance through end-March 2005 against the program's final performance criteria and benchmarks. Second, reviewing macroeconomic prospects and policies for the remainder of 2005 and for the medium term, against the background of the recommendations of the 2005 Article IV consultation.

Performance through end-March 2005

9. **All quantitative performance criteria through end-March 2005 were observed** (Appendix I, Table 1).³ Net credit to the government from the banking system remained below the program ceiling and the primary fiscal balance exceeded the program floor. The government eliminated the remaining domestic payments arrears, did not accumulate any external payments arrears, and remained within the limit on the contracting or guaranteeing of new nonconcessional external debt with original maturity of one year or less. Indicative quantitative targets for end-March 2005, notably on the central government wage bill, were all met.

10. **After a strong start, structural reforms have slowed down.** The majority of the 21 structural benchmarks under the program were observed, notably relating to the improvement of the framework for formulating and implementing fiscal policy. The 2005 budget was put in place before end-February, a considerable improvement over past practice, management of the civil service wage bill was tightened, and steps were taken to improve the finances of local authorities. Moreover, the establishment of the National Commission Against Illicit Enrichment and the publication of its first annual report represented important steps in the fight against corruption. However, benchmarks were missed in several areas: (i) full implementation of the new civil service law has been delayed, thereby postponing the Government's objective to gain a better structural grip on the wage bill; (ii) although all special funds are included in fiscal reporting, the 2005 budget law did not contain a transparent presentation of their activities; (iii) implementing regulations for the mining code were not adopted and the exemptions provided for in recent the agreement with a large manganese mining company go beyond those provided for under the mining code; (iv) the action plan for restructuring the university scholarship program has been delayed; and (v) the restructuring and privatization of two large public enterprises, Gabon Telecom and Air Gabon, have met with repeated delays.

³ Fiscal performance criteria are adjusted for any oil windfall revenue and any reduction in the payment float at the Treasury exceeding program projections. See *Technical Memorandum of Understanding* (Country Report No. 05/149) for a full description of program adjusters.

Macroeconomic policies for the remainder of 2005 and the medium term

11. **The authorities aim to tighten fiscal policy in 2005, albeit by less than originally envisaged.** The non-oil primary deficit is now expected to reach 6¾ percent of non-oil GDP (6 percent, net of Air Gabon), compared with an original program target of 5¾ percent (and an outturn of 7¾ in 2004). Revenue is expected to remain on track and the target of raising non-oil revenue by one percentage point of non-oil GDP remains realistic. However, the Government expects to face additional expenditures in two areas (para 6 of the MAFP). First, the financial situation of Air Gabon has deteriorated significantly and the Government has decided to provide significant financial assistance pending its liquidation (see paragraph 16), which could exceed 1 percent of GDP.⁴ Second, once the PRSP is finalized—expected by August 2005—the Government intends to identify priority spending aimed at poverty reduction. It expects that most of this spending will take place in the context of the 2006 budget, but the Government estimates that a small amount, not exceeding 0.15 percent of GDP, may take place in 2005.

12. **The mission concurred that a more gradual fiscal consolidation path could be warranted, provided that the medium-term fiscal targets are maintained.** Economic circumstances have changed since the program was originally designed (Box 1). As a result of the sharp rise in oil prices, the financing constraint for 2005 has been lifted: there is no financing gap, even in the absence of further Paris Club rescheduling covering the second half of the year. More importantly, the positive wealth effect resulting from higher oil prices and a less-rapid decline in oil production has improved Gabon's debt sustainability outlook dramatically (Box 2). These factors suggest that fiscal adjustment in 2005 could be less than originally envisaged. For 2006-07, fiscal targets will need to take into account the PRSP, once it has been completed, and the sustainability of public debt. But the mission underscored that it remains imperative to persevere with fiscal adjustment over the medium term to address the erosion of oil production and related government revenue. Notably, the fiscal objectives for 2010 and 2023 formulated in the context of the last Article IV consultation—a non-oil primary deficit of 4 percent of non-oil GDP in 2010 and less than 1 percent in 2023—should be retained.⁵ On Air Gabon, the mission noted that it will be

⁴ Financial assistance to be provided to Air Gabon falls into three categories: (i) transfers to support its operations until the company is liquidated; (ii) redundancy payments required by law to the staff of Air Gabon who are laid off as a result of its liquidation; and (iii) settlement of Air Gabon's debts once they have been audited and formally assumed by the government. In Tables 2 and 3, the first category is reflected in current expenditure. Redundancy payments and the debt assumption are reflected below the line, in the absence of precise information on the net liabilities of Air Gabon and the timing of any payments. However, Table 3 includes an augmented non-oil primary balance that incorporates all estimated restructuring costs, including for other public enterprises.

⁵ See the baseline scenario in *Medium-term Fiscal Constraints in Gabon: A Scenario Approach* (IMF Country Report No. 05/147).

important that the authorities act rapidly both to stem its losses and to prepare for a definitive solution that ensures that the airline will no longer be a drain on public resources. In particular, a comprehensive audit of Air Gabon's assets and liabilities will be needed quickly to ringfence the implications of its liquidation for public finances. On poverty-reducing expenditures, the mission emphasized that such spending should wait for the PRSP to be completed and that any additional spending should take place in the context of a transparent supplementary budget.

Box 1. The Fiscal Framework for 2005 and the Medium Term

The original fiscal framework for 2005 was designed to address the persistence of a large financing gap, requiring far-reaching fiscal consolidation (and further rescheduling of external debt service). An oil price of \$27 per barrel and oil production declining by 10-15 percent per year starting in 2005 determined the medium-term objective of eliminating the non-oil primary deficit by 2008 to achieve fiscal and external debt sustainability.¹

In the event, both oil prices and output are significantly higher than anticipated. In 2004, the overall fiscal surplus reached 7½ percent of GDP, compared with a program target of 5½ percent. For 2005, the overall fiscal surplus is projected to increase to 10¼ percent of GDP. High oil prices have led not only to a faster rate of production but also to an increase in estimated usable oil reserves as more marginal fields have become economically viable. The improved outlook for the oil sector was integrated in the scenario analysis underlying the fiscal projections in *Medium-term Fiscal Constraints in Gabon: A Scenario Approach* (Country Report No. 05/174). It concluded that an operational target for the non-oil primary balance of a deficit of 4 percent of non-oil GDP in 2010, and less than 1 percent by 2023, is consistent with medium-term debt sustainability. This assumes, however, that the windfall oil revenue is saved not spent, thereby lowering the burden of debt service in the budget.

^{1/} *Gabon – Request for Stand-By Arrangement* (Country Report No. 04/168)

Box 2. Gabon's Debt Sustainability

The external and public debt sustainability analysis prepared in the context of the 2005 Article IV consultation (IMF Country Report No. 05/149) shows a baseline scenario yielding a steadily declining debt-to-GDP ratio and no financing gaps through 2014. Assumptions in the baseline scenario are conservative: a resumption of the decline in oil production averaging 10 percent during 2006-10 and the saving of all oil windfall revenue (revenue resulting from oil prices above US\$35 per barrel of Brent).

This analysis contrasts sharply with that prepared in mid-2004, which showed continued financing gaps over the duration of the projection period averaging over 7 percent of GDP and indicating the need for further debt rescheduling.

Over the past few months, international oil prices have risen further, reflected in an upward adjustment in the baseline projections of the *World Economic Outlook* by 10 percent since late March. Moreover, the Gabonese authorities have revised their medium-term outlook oil production assumptions—consistent with the expectations of the major oil companies active in Gabon—and now expect production to remain stable at least through 2007 as more marginally fields become economically viable. As a result, Gabon's debt sustainability has further improved, although it clearly remains extremely dependent on developments in the oil sector.

13. **There has been progress in introducing structural fiscal reforms.** The authorities have taken steps to strengthen both the revenue basis and improve expenditure control (para. 8 of the MEFP): the large-tax payer unit is starting operations, progress in land titling is strengthening the finances of local authorities, and improved cash management at the Treasury is improving government fiscal operations. However, progress in implementing tax administration reforms has been slow. Moreover, the mission noted that a significant agenda remains to strengthen public expenditure management (Box 3). In particular, budget preparation should be further improved by ensuring coherence between investment projects and budgeted recurrent costs; budget execution should be strengthened by fully implementing the computerized budget management system, eliminating redundancies in ex-ante expenditure control, and reinforcing ex-post verifications; and efficient budgetary management as well as proper expenditure allocation—in particular for poverty reduction—requires the introduction of a full functional classification of expenditure. There is also a need to review the new civil service law to ensure that its implementation is consistent with the objective of improving structural control of the wage bill.⁶

⁶ See Box 5 of (IMF Country Report No. 05/149) for a full discussion of the new civil service law.

Box 3. Public Expenditure Management Issues

The IMF's Fiscal Affairs Department provided technical assistance to Gabon on public expenditure management in 2004. It concluded that while the legal framework was good, implementation falls short of best practice in a number of areas.

Budget preparation

- **The current and investment budgets are prepared** separately and coordination is weak. As a result, recurrent costs of investment projects are not adequately provided for and multi-year investment projects are not adequately funded.
- **Several special accounts are not transparently reflected in the annual budget law.** A number of public agencies in Gabon have special accounts at the Treasury which benefit from earmarked revenue. While these operations are reflected in central government financial operations on a gross basis, the budget law presents them on a net basis.
- **The absence of a functional classification of expenditure** complicates both budget preparation and subsequent budgetary management and monitoring.

Budget Execution

- **Late approval of the budget law** increases reliance on exceptional procedures. Significant progress was made in 2005 when the budget was implemented by mid-February for current expenditures and by end-February for investment.
- **Treasury float**—the lag between payment order and actual settlement—raises significant problems for government cash management. Significant progress has been made recently, with the Treasury strictly observing a rule of payment within 120 days of receipt of the payment order.
- **Ex-post verification** remains weak. Most checks and balances are concentrated in the approval phase, while measures of performance or output are under-utilized.

14. **Work is underway, led by the World Bank, on a Public Expenditure Review (PER).** Key objectives of the PER are to assist the authorities in (i) developing a medium-term approach for the budget; (ii) clarifying explicitly the budgetary priorities; (iii) articulating sectoral strategies in the budget; (iv) better integrating the current and investment budgets; and (v) improving the monitoring of budget execution. The mission welcomed the initiative and urged the authorities to seize the opportunity to tackle outstanding problems in public expenditure management and ensure that the priorities identified in the PRSP can be effectively translated into high-quality, well-targeted public spending.

Structural reforms

15. **The authorities emphasized that continued structural reforms are critical to diversifying the economy and improving Gabon's growth prospects** (para. 9 of the MEFP). Discussions focused on (i) the privatization of certain public enterprises; (ii) improving the investment climate in Gabon, including by strengthening transparency and governance; (iii) strengthening the financial sector as a foundation for private-sector led growth; and (iv) reforming the sector of natural resources.

16. **Public enterprise reform has been slower than envisaged.** The sale of a majority stake in **Gabon Telecom**, originally scheduled for late 2004, has been further delayed and the authorities have established a new timetable that aims to bring it to tender in September 2005. The authorities emphasized that they have taken a number of steps to facilitate the sale, including canceling cross-debts between Gabon Telecom and the Government and clarifying the regulatory environment. Nevertheless, some uncertainties remain regarding the value of Gabon Telecom's assets and the mission urged the authorities to remove such uncertainties as soon as possible. Attempts to restore **Air Gabon** to profitability in 2004 failed and instead its finances deteriorated rapidly in recent months requiring considerable government financial support. The government has taken the decision to liquidate the company and invite a foreign strategic investor to start a new airline in which the Government would have a minority stake. Legal redundancy procedures for the staff have started and the government expects to complete them by October 2005 at the latest. The selection of the strategic investor will take place by end-July; however, the new airline is likely to become operational only by early 2006. The mission welcomed rapid action to stem Air Gabon's losses and urged the authorities to conduct an in-depth audit as soon as possible to ringfence the cost of the liquidation so that Air Gabon will not be a continuous drain on public resources in future. This applies *a fortiori* to the creation of a new airline with government participation and the mission urged the authorities to ensure that the new airline is managed on a commercial basis without government interference.

17. **Improving the investment climate is critical to diversification and sparking private-sector led growth** (Box 4). The main problems identified by the private sector are: (i) improving access to financing for Small and Medium Enterprises (SMEs); (ii) reducing factor costs, particularly the very high costs of port and transport operations; (iii) streamlining the administrative procedures required to set up a business, simplify taxation, and effectively eliminate parafiscal taxes; (iv) boosting the supply of skilled labor by modernizing the vocational training centers; and (v) strengthening the administrative environment by improving the functioning of the courts. Following the report by the World Bank's Foreign Investment Advisory Services (FIAS) and the work shop held with the private sector last February, the authorities are preparing an action plan to address many of these issues. The mission welcomed the work underway and urged the authorities to move forward rapidly where possible, especially in streamlining the legal and regulatory environment.

Box 4. Strengthening the Investment Climate

Boosting non-oil growth in Gabon requires improving the business climate to attract domestic and foreign investors. The sectors with promising prospects are the transformation of natural resources, notably mining and forestry, and tourism. Measures to improve the investment climate identified by The World Bank Group's Foreign Advisory Services (FIAS) focus on the following:

Improving governance and the rule of law

- Design of a multi-year strategy to improve the rule of law with components on anti-corruption, judicial reform, and civil service reform.
- Make this a top priority for the government.

Improving Investment-Related Administrative Procedures

- Strengthening the second-tier bank (BDG) to support private enterprise development.
- Review the role of the Investment Promotion Agency and ensure the functioning of the one-stop shop.
- Reform education and professional training.
- Launch a study focusing on SME access to credit.
- Streamline formalities and reduce the cost of business registration.
- Publish public procurements opportunities and contract awards.
- Improve customs clearance procedures and remove the statistical tax for customs.

Reforming the Tax System

- Eliminate taxes not included in the budget law.
- Launch a study on corporate taxation

Improving Infrastructure and Reducing the Costs of Inputs

- Engage in consultations with the private sector on priorities (energy, telecom, transport) to design an strategy.
- Complete privatization of Gabon Telecom and Air Gabon.
- Rehabilitate existing priority transportation networks and ensure that adequate public financing is available for maintenance.

18. **Financial sector stability has improved since the 2002 Financial Sector Stability Assessment, but important structural challenges remain.** Commercial banks are highly liquid and non-performing loans have recently declined. At the same time, credit demand from the private sector has declined as enterprises benefit from the Government's settlement of domestic arrears and have less need to rely on outside financing. In the absence of domestic lending opportunities, commercial banks have sharply increased their holdings of foreign assets. The authorities noted that the excess liquidity currently did not pose an inflationary threat. The mission concurred, but urged the authorities to be vigilant, including on any prudential implications of the commercial banks' asset management strategy. With the aim of improving access to SMEs, the authorities are encouraging the development of microfinance institutions. But progress has been slow and has focused more on the establishment of central umbrella organizations than on the creation of microfinance institutions themselves.

19. **Strengthening governance and improving transparency are key ingredients of a better investment climate** (paras. 14 and 15 of the MEFP). The authorities have taken important steps in several areas, including the creation of the National Commission Against Illicit Enrichment, the establishment of the public tender office, measures to improve the transparency of the forestry sector, and their adherence to the Extractive Industries Transparency Initiative (EITI). The mission welcomed the progress made so far and underscored that, going forward, the objective should be to reinforce the culture of good governance and transparency by ensuring the regular release of reliable information in the context of a sound institutional structure:

- The ongoing audits of the annual independence celebrations (*fêtes tournantes*) and the arrears of the road maintenance fund (FER) should be completed expeditiously, made publicly available, and their conclusions reflected in the preparation of the 2006 budget and the second generation FER under consideration;
- The reconciliation of data under the EITI should give rise to at least quarterly publication, even if the reports are audited on a less frequent basis;
- There is a need to complete the ongoing work on a new Statistics Law that defines the objectives and responsibilities of compiling and disseminating statistical information in Gabon;
- Economic and financial data that are available should be published regularly and within defined time limits, especially on fiscal operations including oil revenue. Practices should be guided by the GDDS to which Gabon has adhered.

20. **The ongoing reforms in the natural resources sector are important to unlock Gabon's future growth potential.** A number of important steps have been taken so far, notably in the forestry sector (para. 13 of the MEFP). The Government has announced the lifting of the monopoly of the timber marketing board (SNBG) on the export of logs effective January 1, 2006, and work is underway to define the role of a down-sized SNBG. The

government has initiated a policy of transparency in the forestry sector: a comprehensive list of holders of forest permits was published in February 2005 and the Government has announced that all permit holders that do not clear their arrears or agree to a well-defined repayment schedule will be subject to the seizure of their permits. The Ministry of Finance intends to initiate the first seizures in August 2005. The mission welcomed the progress made to date and urged the authorities to ensure that in restructuring the SNBG it relinquish its parastatal duties and limit itself to providing marketing and sales services to small timber producers. The mission also encouraged the authorities to begin seizing forestry permits where taxes are not paid, which will send a clear signal to other holders to settle their outstanding arrears, thereby boosting tax collection. Moreover, it represents an opportunity, once an appropriate auctioning system is in place, to promote a more efficient allocation and exploitation of forestry resources within the Government's sustainable forestry plan.

IV. STAFF APPRAISAL

21. **It has been one year since Gabon embarked on its economic program supported by a Stand-By Arrangement from the IMF.** Much has been achieved. Fiscal discipline has contributed to the restoration of macroeconomic stability, including the elimination of external and domestic payment arrears. A broadening of the domestic revenue base and strict expenditure control, including on the public sector wage bill, have been key pillars of fiscal rectitude. At the same time, important structural reforms were launched that could form the basis for the economic diversification needed to ensure long-term sustainable growth. But daunting challenges remain to reduce Gabon's dependence on oil, diversify the economy, and make decisive progress in poverty reduction.

22. **Fiscal discipline remains the cornerstone of Gabon's successful macroeconomic stabilization.** The medium-term decline in oil production, which currently accounts for more than half of government revenue, will require continued fiscal adjustment, both by bolstering non-oil revenue sources and improving the efficiency of public spending. The latter will require placing public spending in a medium-term context and ensuring consistency between the investment and recurrent budgets. It will also require prudent management of oil revenues, which are currently buoyed by high international prices. Only if the bulk of windfall oil revenues in the coming years are consistently used to reduce domestic and external debt levels can Gabon's public finances be placed on a permanently sound footing.

23. **These principles need to drive the preparation of the PRSP, the three-year public investment program, and the 2006 budget.** The PRSP is a key building block for a medium-term program aimed at diversifying the Gabonese economy and reducing poverty. Its sectoral strategies will need to be translated into concrete spending plans in the context of a well-prepared three-year public investment plan (PIP). The public expenditure reviews currently underway will assist in this effort. Compared to current practice, the three-year PIP should be more binding, with the objective of ensuring more consistent priorities over time. At the same time, it will be important that the annual investment budget be pared down to include only true investment spending and that the recurrent cost implications of all

investments are fully budgeted. The 2006 budget will need to continue to reduce the non-oil primary deficit toward levels consistent with medium-term debt sustainability, while strengthening public expenditure management significantly. The ongoing public expenditure reviews conducted by the World Bank and other donors will be critical to this effort.

24. **Further progress is also needed in structural fiscal reforms.** The new civil service law needs to ensure a better grip on the wage bill; the Large Tax-payer Unit needs to become operational with the aim, over time, to improve the efficiency of tax collection, and the finances of local authorities need to be strengthened by continuing to broaden their tax base, notably for property taxation.

25. **Macroeconomic discipline needs to be accompanied by far-reaching reforms aimed at accelerating the diversification of Gabon's economy.** Following the successful workshop last February to discuss the FIAS report on encouraging foreign investment, the Government needs to translate its recommendations into a concrete, time-bound action plan to address some of the key bottlenecks facing potential investors.

26. **Strengthening governance and increasing transparency are key ingredients of a better investment climate.** Important steps have been taken in several areas, including the creation of the National Commission Against Illicit Enrichment, the establishment of the public tender office, the steps to increase transparency in the forestry sector, and Gabon's adherence to the EITI. Looking ahead, the objective should be to reinforce the culture of good governance and transparency by ensuring the regular release of reliable information in the context of a sound institutional structure. Forestry sector reform needs to remain on track. An assessment of fiscal transparency, scheduled for the coming year, will provide an important basis for strengthening budgetary institutions and practices. The EITI has now reached the implementation phase and will be a critical component of publishing comprehensive information on the oil sector. More generally, there is considerable scope to improve the compilation and, in particular, the dissemination of economic statistics in Gabon. The new Statistics Law, currently under preparation, will play an important role in this effort.

27. **The privatization of ailing public enterprises will contribute to strengthening the productivity of Gabon's economy, while reducing the drain on public resources.** The remaining hurdles to the sale of Gabon Telecom need to be lifted as soon as possible. On Air Gabon, it will be important that the Government act rapidly both to stem the losses and to prepare for a definitive solution that ensures that the airline will no longer be a drain on public resources. Retaining a significant government stake in Air Gabon poses risks going forward and the government should consider divesting its remaining holdings in the airline over time. Meanwhile, a comprehensive audit of Air Gabon's assets and liabilities will be needed quickly to ringfence the budgetary implications of any plan going forward, and the new airline with government participation should be managed on a commercial basis without government interference.

28. **The PRSP which the Government is currently preparing will provide a critical foundation for the next three years.** It will be important that the PRSP is completed on schedule so that it can set the strategic directions for operationalizing economic policies for 2006 and beyond.

29. **The Gabonese authorities have expressed a desire to remain closely engaged with the Fund through a multi-year follow-up arrangement.** A medium-term economic program will require sound foundations. Over the coming months, further work will be needed to reinforce these foundations. A high-quality PRSP articulating the Government's strategy for the coming three years needs to be finalized; a multi-year public investment program and a budgetary framework for 2006 need to be put in place, consistent with the PRSP and with the medium-term objective of fiscal consolidation, including a definitive solution for Air Gabon; an action plan needs to be implemented to promote private sector development aimed at the diversification of the Gabonese economy; and a well-articulated strategy for the development of Gabon's natural resources, notably in the forestry sector, needs to be firmly in place. Further strengthening of governance and transparency will be critical to these efforts.

30. Against this background:

- In view of the authorities' good faith efforts in negotiating with non-Paris Club and London Club creditors, and the substantial progress made in these negotiations, the staff recommends completion of the financing assurances review; and
- In view of the satisfactory performance through end-March 2005, observance of all quantitative performance criteria and progress in achieving the structural benchmarks, the staff recommends that the fourth review of the Stand-By Arrangement be completed.

Table 1. Gabon: Selected Economic Indicators, 2000–07

	2000	2001	2002	2003	2004		2005	2006	2007
					Prog.	Prel.			
	(Annual percent change)								
GDP at constant prices	-1.9	2.0	0.0	2.4	2.0	1.4	2.2	2.7	3.0
Oil	-10.2	-5.7	-1.4	6.6	-0.6	-1.0	0.1	0.3	0.4
Non-oil	2.1	5.3	0.6	0.8	3.0	2.3	3.0	3.6	4.0
GDP at current prices	26.0	-4.7	0.0	2.0	-3.9	8.5	11.3	5.0	1.4
GDP deflator	28.5	-6.6	0.0	-0.4	-5.8	7.0	8.9	2.2	-1.6
Oil	77.5	-12.7	1.0	-3.4	-16.0	16.6	18.8	4.7	-3.1
Non-oil	3.0	2.2	-0.2	0.5	2.2	1.1	2.0	1.4	1.1
Consumer prices									
Yearly average	0.5	2.1	0.2	2.1	2.0	0.4	1.0	1.0	1.0
End of period	1.8	0.9	0.4	3.5	2.0	-0.6	1.0	1.0	1.0
External sector									
Exports, f.o.b. (CFA francs)	53.7	-19.0	-7.0	3.7	-4.3	21.5	16.1	6.7	0.1
<i>Of which:</i> oil	65.4	-19.6	-6.5	8.2	-3.8	15.9	17.5	5.6	-2.2
Imports, f.o.b. (CFA francs)	1.4	9.3	4.9	-7.0	4.6	19.3	7.7	5.6	6.3
Export volume	32.8	-13.9	-1.8	-4.1	0.3	29.1	7.3	4.9	1.1
Import volume	-13.9	3.8	9.2	7.1	11.5	28.8	14.6	3.9	4.5
Terms of trade (deterioration -)	-1.6	-10.6	-1.5	24.7	-4.7	1.6	15.1	0.0	-2.6
Nominal effective exchange rate (- = depreciation)	-2.5	1.9	4.5	4.0	...	1.8	...	...	...
Real effective exchange rate (- = depreciation)	-2.9	1.1	2.5	5.7	...	-1.0	...	...	...
Central government finance									
Total revenue	48.4	-2.8	-7.3	-3.6	-2.6	6.0	13.9	6.6	1.5
Oil revenue	121.0	-7.6	-19.1	-6.4	-10.9	5.2	18.3	7.9	-1.2
Non-oil revenue	-11.7	7.1	13.8	0.0	7.2	6.8	8.7	5.0	5.1
Total expenditure	0.8	35.1	-8.7	-18.6	7.2	4.8	0.9	0.5	-1.1
Current	2.1	27.5	-20.1	-10.7	3.5	2.3	-1.9	-0.3	-3.4
Capital	-11.6	55.7	-16.5	-4.4	24.3	22.4	3.1	5.0	5.1
	(In percent of beginning-of-period broad money, unless otherwise indicated)								
Money and credit									
Net domestic assets	-31.5	42.6	-2.1	-8.8	-4.2	-23.8	-23.1	-38.6	-41.0
Domestic credit	-33.7	38.8	-1.4	-4.9	-3.3	-22.1	-21.5	-37.6	-39.0
Central government	-39.6	27.7	-9.1	2.0	-8.2	-13.6	-22.8	-41.0	-44.6
Credit to the economy	8.3	11.8	6.4	-7.1	4.9	-6.5	1.3	3.4	5.6
(annual percentage change)	11.7	17.4	8.7	-9.4	7.1	-9.3	2.4	6.1	10.0
Broad money	18.0	7.5	5.7	-1.2	5.3	11.6	5.0	5.0	5.1
Velocity of broad money (non-oil GDP)	3.8	3.7	3.4	3.4	3.4	3.4	3.3	3.3	3.3
	(In percent of GDP, unless otherwise indicated)								
Gross national savings	41.5	36.8	31.3	36.0	31.5	34.8	36.2	38.9	40.4
Government	14.6	8.0	7.5	11.1	10.3	11.7	14.3	15.5	16.1
Private sector	27.0	28.8	23.8	24.9	21.1	23.1	21.9	23.4	24.2
Gross domestic savings	58.1	51.8	43.6	48.1	49.1	49.4	53.3	56.2	56.7
Government	19.7	15.9	10.9	8.0	7.4	9.3	12.3	13.8	14.7
Private sector	38.4	35.9	32.7	40.1	41.6	40.1	41.0	42.5	42.0
Gross fixed investment	21.8	25.8	24.4	24.0	25.7	24.3	23.7	24.4	25.8
Government	2.9	4.7	4.0	3.7	4.8	4.2	3.9	3.9	4.0
Private sector	18.9	21.0	20.5	20.2	20.9	20.1	19.9	20.5	21.8
Nominal GDP (in billions of CFA francs)	3,618.3	3,448.5	3,448.9	3,518.9	3,382.3	3,818.0	4,249.2	4,462.0	4,522.4
Central government									
Primary budget balance (commitment basis)	17.5	12.0	7.9	11.4	10.3	11.5	13.2	14.1	13.8
Non-oil primary balance (in percent of non-oil GDP)	-9.8	-16.9	-16.8	-8.2	-7.5	-7.7	-6.7	-5.8	-5.4
Overall balance (commitment basis, excl. grants)	11.6	3.2	3.4	7.4	5.2	7.4	10.2	11.5	12.0
Overall balance (cash basis)	4.0	4.8	3.5	6.4	0.1	2.4	8.6	11.6	12.1
Domestic bank financing	-4.9	4.2	-1.5	0.5	-1.4	-2.3	-3.5	-6.4	-7.2
Net external financing	4.4	-6.2	-2.2	-3.7	-9.6	2.5	-2.1	-3.9	-3.9
Financing gap	0.0	0.0	0.0	0.0	13.9	0.0	0.0	0.0	0.0
External current account balance (including official transfers)	19.7	11.0	6.8	12.0	5.8	10.5	12.4	14.5	14.6
External current account balance (excluding official transfers)	20.0	10.8	7.5	12.8	5.5	10.4	12.3	14.4	14.4
External public debt (including the Fund and gap financing)	57.1	63.1	62.8	56.0	58.6	49.6	42.0	35.8	30.9
Total public debt (including the Fund and gap financing)	71.3	81.1	82.8	73.0	67.9	61.9	48.7	36.7	30.9

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

1/ Including the Fund.

Table 2. Gabon: Fiscal Operations of the Central Government, 2003-05 (concluded)

	2003			2004			2005			
	Dec.	Mar.	Jun.	Dec.	Jun.	Pre.	Mar.	Jun.	Rev. Ind.	
				Dec.		Prog.			Dec.	
Domestic (net)	-94.2	-39.1	-96.7	-117.1	-186.7	-78.4	-29.0	-133.4	-171.5	-275.5
Banking system	15.8	-22.4	-61.4	-48.5	-86.0	-40.9	7.6	-59.3	-53.3	-150.7
Bank of Central African States (BEAC)	15.8	-19.2	-38.4	-23.1	-52.1	-37.5	10.3	-52.4	-42.9	-137.3
Commercial banks 4/	0.0	-3.2	-23.0	-25.4	-33.9	-3.5	-2.7	-6.9	-10.4	-13.4
Nonbank sources	-110.0	-16.7	-35.3	-68.6	-100.7	-37.5	-36.6	-74.0	-118.2	-124.7
Domestic debt	-60.1	-15.5	-30.8	-44.8	-68.8	-24.8	-35.4	-60.7	-75.9	-95.8
Oil company advances (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt Accounting Department (DGCP)	-55.3	-11.6	-22.8	-33.4	-46.5	-15.5	-29.6	-45.1	-59.1	-72.4
Securitized commercial agreements	-19.8	-4.1	-7.5	-10.6	-15.0	-5.2	-3.7	-10.4	-15.6	-20.0
Other (divers) 3/	-35.5	-7.5	-15.3	-22.8	-31.5	-10.3	-25.9	-34.7	-43.5	-52.4
Debt at the treasury ("Libreville Club")	0.0	-0.6	-2.3	-3.9	-5.5	-1.3	0.0	-3.6	-4.8	-4.9
Regularization of civil servants' salaries (rappeles)	-4.8	-3.4	-5.7	-7.6	-16.8	-8.0	-5.8	-12.0	-12.0	-18.6
Change in domestic arrears: (on principal, - reduction)	-11.6	-16.1	-13.0	-12.3	-15.4	-1.2	-1.5	-1.9	-1.9	-1.9
Restructuring cost 5/	-7.8	-1.5	-4.5	-7.3	-15.2	-5.9	0.0	-17.3	-43.8	-49.8
Social costs	-7.8	-1.5	-4.5	-7.3	-15.2	-5.9	0.0	-15.3	-28.7	-29.7
Domestic debt rescheduled/cancellation	0.0	10.1	10.1	14.1	10.1	0.4	15.4	15.5	15.5	15.5
Privatization proceeds	1.0	0.0	0.0	0.0	1.7	0.0	0.0	0.0	0.0	18.2
Other	-31.5	6.3	2.9	-18.3	-13.0	-6.0	-15.1	-9.6	-12.2	-10.9
Treasury correspondents, incl. pensions	-6.2	-2.9	-1.9	-5.7	-6.9	-3.2	-4.9	-5.5	-6.7	-4.0
Local authorities 6/	-1.9	3.1	1.5	1.0	1.4	-1.5	-1.9	-1.5	-1.5	-1.5
Cancellation of domestic debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Development Bank of Gabon (BGD)	-1.4	-0.5	-0.5	-0.7	-2.0	-0.3	-0.4	-0.6	-1.0	-1.4
Other, including transactions between local and central treasury	-13.5	1.1	-0.8	-7.2	-4.7	-1.0	-4.6	-2.0	-3.0	-4.0
Errors and omissions	-8.6	5.5	4.6	-5.7	-0.8	0.0	-3.3	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Primary fiscal balance, incl. grants (in percent of GDP)	11.4	3.0	5.9	8.5	11.5	3.4	2.9	6.5	9.7	13.2
Non-oil primary balance, incl. grants (in percent of non-oil GDP)	-8.2	-1.5	-2.9	-5.4	-7.7	-2.2	-1.4	-3.5	-5.5	-6.7
Stock of unpaid payments orders at the treasury	84.7	62.4	44.8	48.0	56.7	36.7	9.6	-3.1	6.6	15.2
Fund for Future Generations (balance)	30.0	16.5	51.5	55.0	55.0	81.7	60.0	108.4	135.1	162.6

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

1/ The original program targets for end-September and end-December 2004 have been revised to take into account the planned uses of the oil windfall, and an upward adjustment in current spending (by CFAF 1 billion) for end-December 2004.

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

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

4/ The data excludes CFAF 7.8 billion of securitized commercial agreements bought by a local commercial bank from private nonbank creditors during the first nine months of 2004. It therefore differs from the monetary survey data.

5/ Restructuring costs refer to social costs of privatization and voluntary departures. For 2005 includes CFAF 11.9 billion to Gabon Telecom, CFAF 30.1 billion to Air Gabon, CFAF 6.8 billion to Agro Gabon, and CFAF 1.0 billion for Gabon Post.

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

Table 3. Gabon: Fiscal Operations of the Central Government, 2000–07

	2000	2001	2002	2003	2004 Prel.	2005 Prog.	2005 Rev.	2006 Proj.	2007 Proj.
(In billions of CFA francs)									
Total revenue and grants	1,207.6	1,173.6	1,089.9	1,050.3	1,113.6	1,262.7	1,271.2	1,355.4	1,376.1
Revenue	1,207.6	1,173.6	1,088.0	1,049.1	1,111.5	1,257.7	1,266.2	1,350.2	1,370.6
Oil revenue	814.7	752.9	609.0	570.2	600.0	702.4	709.9	766.0	756.9
Non-oil revenue	392.9	420.8	479.0	478.9	511.5	555.4	556.2	584.1	613.7
Direct taxes	81.9	96.6	134.2	122.6	137.3	146.3	146.7	154.1	161.8
Indirect taxes	80.2	70.8	83.5	109.6	115.1	123.7	124.5	130.7	137.3
Taxes on international trade	214.7	218.4	210.0	200.3	200.5	216.6	219.5	230.5	242.2
Import taxes	186.7	187.8	180.9	171.2	172.9	184.3	187.3	196.7	206.7
<i>Of which</i>									
VAT	83.6	92.0	88.6	83.9	82.6	90.3	91.8	96.4	101.3
Export taxes	28.0	30.6	29.1	29.1	27.6	32.3	32.2	33.8	35.5
Other revenue	16.1	35.0	51.3	46.4	58.7	68.8	65.5	68.8	72.3
Foreign grants	0.0	0.0	1.9	1.2	2.1	5.0	5.0	5.3	5.5
Total expenditure (including net lending)	786.1	1,061.9	969.2	789.0	827.1	813.6	834.6	838.5	829.2
Total expenditure (excluding interest payments)	574.1	758.2	817.9	647.5	676.3	688.1	709.1	724.4	751.8
Current expenditure	674.8	860.4	687.4	613.5	627.8	599.6	615.6	613.7	593.0
Wages and salaries	216.6	219.6	220.6	229.0	226.3	225.0	226.0	228.3	230.5
Purchases of goods and services	128.3	177.0	156.7	124.8	125.1	131.1	131.1	137.7	144.6
Transfers	117.8	160.1	158.8	118.3	125.6	118.0	133.0	133.7	140.5
Interest payments	212.0	303.7	151.3	141.5	150.8	125.5	125.5	114.0	77.4
Domestic	27.8	34.3	33.7	30.4	31.4	23.6	23.6	15.9	11.4
External (excluding IMF)	184.2	269.4	117.6	111.1	119.4	101.9	101.9	98.2	66.0
Capital expenditure	105.1	163.6	136.6	130.7	160.0	165.0	165.0	173.3	182.0
Domestically financed investment	82.4	154.3	117.0	122.0	142.2	133.0	133.0	139.7	146.7
Foreign-financed investment	22.7	9.3	19.6	8.7	17.8	32.0	32.0	33.6	35.3
Net lending (including equity participation)	6.2	37.9	17.1	0.3	0.0	0.0	5.0	0.0	0.0
Restructuring cost of public enterprises 1/	0.0	0.0	67.5	0.0	0.0	0.0	0.0	0.0	0.0
Road Maintenance Fund (FER) and special funds 2/	...	...	60.5	44.5	39.3	49.0	49.0	51.5	54.1
Overall balance, incl. grants (on a payments order basis)	421.5	111.7	120.7	261.3	286.5	449.1	436.5	517.0	546.9
Primary balance, incl. grants (on a payments order basis)	633.5	415.4	272.0	402.8	437.3	574.6	562.0	631.0	624.3
Change in arrears	-276.1	54.7	1.1	-36.4	-193.7	-53.5	-71.5	0.0	0.0
External (on interest payments)	-201.3	26.2	81.1	32.4	-140.4	0.0	0.0	0.0	0.0
Domestic	-74.9	28.5	-79.9	-68.8	-53.3	-53.5	-71.5	0.0	0.0
Overall balance (on a cash basis)	145.4	166.4	121.8	224.9	92.8	395.6	365.0	517.0	546.9
Financing	-145.4	-166.3	-121.8	-224.9	-92.8	-395.5	-365.0	-517.0	-546.9
External (net)	160.2	-213.1	-76.9	-130.7	93.9	-89.5	-89.5	-172.4	-176.0
Drawings	22.7	9.3	17.7	8.7	59.9	32.0	32.0	40.9	42.4
Project financing	22.7	9.3	17.7	8.7	17.8	32.0	32.0	40.9	42.4
Program financing	0.0	0.0	0.0	0.0	42.1	0.0	0.0	0.0	0.0
Amortization	-242.1	-309.7	-243.6	-198.6	-208.2	-200.8	-200.8	-213.3	-218.4
Arrears (on principal)	-271.6	35.0	135.8	46.1	-185.8	0.0	0.0	0.0	0.0
Foreign exchange effect on arrears	-9.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt rescheduling and deferral	649.5	29.4	1.3	2.0	425.4	76.6	76.6	0.0	0.0
Debt cancellation	17.0	17.0	11.9	11.1	2.6	2.6	2.6	0.0	0.0
Advance external debt payment	-5.9	5.9	0.0	0.0	0.0	0.0	0.0	0.0	1.0
Domestic (net)	-305.7	46.8	-44.9	-94.2	-186.7	-306.0	-275.5	-344.6	-371.0
Banking system	-175.6	144.7	-51.5	15.8	-86.0	-211.3	-150.7	-284.2	-325.1
Bank of Central African States	-59.1	109.5	-92.9	15.8	-52.1	-197.8	-137.3	-278.1	-305.3
<i>Of which</i> : IMF	5.4	-8.1	-9.1	-8.1	17.6	-12.6	-12.6	-7.4	-16.7
Repayment statutory advances	0.0	0.0	0.0	0.0	0.0	-77.7	-17.1	-194.1	-212.9
Commercial banks	-116.5	35.2	41.4	0.0	-33.9	-13.4	-13.4	-6.1	-19.7

Table 3. Gabon: Fiscal Operations of the Central Government, 2000–07 (concluded)

	2000	2001	2002	2003	2004 Prel.	2005 Prog.	2005 Rev.	2006 Proj.	2007 Proj.
(In billions of CFA francs)									
Nonbank sources	-130.1	-97.9	6.6	-110.0	-100.7	-94.7	-124.7	-60.4	-45.9
Domestic debt	-115.0	-80.7	-75.4	-60.1	-68.8	-80.7	-95.8	-44.4	-28.2
Oil company advances (net)	-36.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt Department and other debt	-72.1	-72.9	-69.1	-55.3	-46.5	-57.2	-72.4	-28.2	-28.2
Debt at treasury	0.0	0.0	0.0	0.0	-5.5	-4.9	-4.9	0.0	0.0
Regularization of civil servants' salaries (<i>rappels</i>)	-6.5	-7.8	-6.3	-4.8	-16.8	-18.6	-18.6	-16.2	--
Change in domestic arrears (on principal, – reduction)	-2.0	6.1	14.1	-11.6	-15.4	-1.9	-1.9	0.0	0.0
Restructuring cost 6/	-5.5	-5.6	47.9	-7.8	-15.2	-19.7	-49.8	-13.0	-17.4
Debt rescheduling and cancellation	0.0	0.0	39.6	0.0	10.1	0.4	15.5	0.0	0.0
Privatization proceeds	4.0	3.4	1.8	1.0	1.7	18.2	18.2	0.0	0.0
Other 3/	-11.6	-21.1	-21.4	-31.5	-13.0	-11.0	-10.9	-3.0	-0.3
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(In percent of GDP, unless otherwise specified)									
Memorandum items:									
Total revenue (excluding grants)	33.4	34.0	31.5	29.8	29.1	30.3	29.8	30.3	30.3
Oil revenue	22.5	21.8	17.7	16.2	15.7	16.9	16.7	17.2	16.7
Non-oil revenue	10.9	12.2	13.9	13.6	13.4	13.4	13.1	13.1	13.6
Total expenditure	21.7	30.8	28.1	22.4	21.7	19.6	19.6	18.8	18.3
Total expenditure, excluding interest	15.9	22.0	23.7	18.4	17.7	16.6	16.7	16.2	16.6
Current expenditure	18.7	25.0	19.9	17.4	16.4	14.4	14.5	13.8	13.1
Wage bill	6.0	6.4	6.4	6.5	5.9	5.4	5.3	5.1	5.1
Other current spending	6.8	9.8	9.1	6.9	6.6	6.0	6.2	6.1	6.3
Interest	5.9	8.8	4.4	4.0	3.9	3.0	3.0	2.6	1.7
Capital expenditure	2.9	4.7	4.0	3.7	4.2	4.0	3.9	3.9	4.0
Net lending	0.2	1.1	0.5	0.0	0.0	0.0	0.1	0.0	0.0
Road fund and special funds	...	...	1.8	1.3	1.0	1.2	1.2	1.2	1.2
Defense expenditure 5/	1.8	1.9	1.9	1.8	1.7	1.4	1.4	1.3	1.3
Primary balance, incl. grants (on a payments order basis)	17.5	12.0	7.9	11.4	11.5	13.8	13.2	14.1	13.8
Overall balance, incl. grants (on a payments order basis)	11.6	3.2	3.5	7.4	7.5	10.8	10.3	11.6	12.1
Overall balance (on a cash basis)	4.0	4.8	3.5	6.4	2.4	9.5	8.6	11.6	12.1
(In percent of non-oil GDP)									
Non-oil revenue	21.2	21.1	23.9	23.6	24.3	25.3	25.2	25.2	25.2
Primary expenditure	30.9	37.9	40.8	31.9	32.2	31.3	32.1	31.2	30.9
Wage bill	11.7	11.0	11.0	11.3	10.8	10.2	10.2	9.8	9.5
Non-oil primary balance, incl. grants	-9.8	-16.9	-16.8	-8.2	-7.7	-5.8	-6.7	-5.8	-5.4
Augmented non-oil primary balance 6/	-10.1	-17.2	-17.8	-8.6	-8.5	-6.7	-8.5	-6.4	-6.2
(In billions of CFA francs, unless otherwise indicated)									
Oil prices (in U.S. dollars/barrel) 7/	28.2	24.3	25.2	28.9	38.2	48.1	50.7	53.0	51.8
GDP at market prices	3,618	3,448	3,449	3,519	3,818	4,155	4,249	4,462	4,522
Non-oil GDP at market prices	1,857	1,998	2,006	2,033	2,102	2,199	2,208	2,319	2,436
Fund for Future Generations (stock)	...	...	70.4	30.0	55.0	162.6	162.6	239.2	314.9
Air Gabon support	...	18.0	51.0	...	...	...	45.1	...	...

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

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

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

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

4/ Financing gaps during the program period are expected to be covered by debt rescheduling.

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

6/ The augmented balance includes transfers, social plans, and the payment of arrears of public enterprises. For 2005 includes CFAF 11.9 billion to Gabon Telecom, CFAF 45.1 billion to Air Gabon, CFAF 6.8 billion to Agro Gabon, and CFAF 1.0 billion for Gabon Post.

7/ The corresponding national oil prices are US\$1-4 lower.

Table 4. Gabon : Quarterly Monetary Survey, 2003-05

	2003				2004				2005				
	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	
									Prog.	Prel.	Revised	Indicative.	
	(In billions of CFA francs)												
Net foreign assets	76.9	58.3	73.3	81.6	142.2	199.4	222.9	291.4	344.4	333.1	403.1	413.1	477.4
Central bank	62.3	36.1	61.8	66.9	87.8	119.0	130.3	165.2	215.2	198.5	268.5	278.5	345.8
Deposit money banks	14.6	22.2	11.6	14.6	54.4	80.3	92.6	126.2	129.2	134.6	134.6	134.6	131.6
Net domestic assets	524.6	537.0	503.2	510.2	449.6	425.7	389.7	369.3	333.3	350.6	307.6	311.2	216.4
Net domestic credit	617.5	649.3	645.6	623.0	585.6	549.7	560.8	492.0	456.0	498.3	455.4	469.0	354.2
Net credit to the public sector	173.2	187.0	223.2	210.2	183.9	145.7	167.9	117.5	76.5	126.5	78.5	89.5	-29.1
Net credit to the Government	200.8	216.4	253.5	231.9	209.5	170.6	191.3	151.5	110.5	160.3	108.4	119.4	0.8
Central bank	128.9	167.3	171.5	146.5	127.3	108.1	123.4	94.3	56.8	104.6	58.1	72.6	42.9
Deposit money banks 1/	71.9	49.0	82.0	85.4	82.2	62.4	67.8	57.2	53.7	55.6	50.3	46.8	43.8
Post office savings	3.3	1.5	1.3	6.2	6.6	6.6	6.4	4.1	4.1	5.4	4.1	4.1	4.1
Claims on public agencies, net	-30.9	-30.9	-31.6	-27.9	-32.2	-31.5	-29.8	-38.2	-38.2	-39.2	-34.1	-34.1	-34.1
Credit to the economy	444.3	462.4	422.4	412.8	401.6	404.1	392.9	374.5	379.5	371.9	376.9	379.5	383.4
Other items, net	-92.9	-112.3	-142.4	-112.8	-136.0	-124.1	-171.0	-122.7	-122.7	-147.8	-147.8	-157.8	-137.8
Broad money	601.5	595.3	576.6	591.8	591.8	625.0	612.7	660.6	677.6	683.7	710.7	724.3	693.8
Currency outside banks	119.1	117.2	120.1	124.2	113.4	116.6	120.2	138.7	145.7	134.4	146.4	165.0	145.6
Demand deposits	232.8	225.2	211.2	220.9	223.6	251.3	233.7	250.5	255.5	270.2	280.2	270.2	263.0
Time deposits	249.6	253.0	245.3	246.7	254.7	257.1	258.8	271.5	276.5	279.1	284.1	289.1	285.1
Memorandum items:	(Changes in percent of beginning-of-period broad money)												
Monetary survey													
Net foreign assets	6.8	3.7	6.2	7.6	10.2	19.9	23.9	35.5	8.0	6.3	16.9	18.4	28.2
Net domestic assets	-6.4	-4.3	-10.0	-8.8	-10.2	-14.3	-20.4	-23.8	-5.4	-2.8	-9.3	-8.8	-23.1
Net domestic credit	-5.8	-0.5	-1.1	-4.9	-6.3	-12.4	-10.5	-22.1	-5.4	0.3	-6.2	-4.1	-21.5
Net credit to the government	-3.2	-0.6	5.6	2.0	-3.8	-10.4	-6.9	-13.6	-6.2	1.3	-6.5	-4.9	-22.8
Credit to the economy	-1.9	1.1	-5.5	-7.1	-1.9	-1.5	-3.4	-6.5	0.8	-0.4	0.4	0.8	1.3
Broad money	0.4	-0.6	-3.7	-1.2	-	5.6	3.5	11.6	2.6	3.5	7.6	9.6	5.0
	(Annual percent changes)												
Credit to the economy	10.0	6.1	-1.4	-9.4	-9.6	-12.6	-7.0	-9.3	-5.5	-7.4	-6.7	-3.4	2.4
Broad money	2.3	-2.2	-3.7	-1.2	-1.6	5.0	6.3	11.6	14.5	15.5	13.7	18.2	5.0

Sources: BEAC; and staff estimates and projections.

1/ The data for September 2004 differs from the one in the government finance table, which excludes CFAF 7.8 billion of securitized commercial agreements bought by a local commercial bank in 2004.

Table 5. Gabon: Monetary Survey, 2000-07

	2000	2001	2002	2003	2004 Prel.	2005	2006	2007
						Projections		
Stocks	(In billions of CFA francs)							
Net foreign assets	177.2	-8.1	36.1	81.6	291.4	477.4	780.0	1,115.8
Central bank	72.8	-46.0	46.0	66.9	165.2	345.8	678.4	1,049.2
Assets	136.5	9.9	90.1	104.9	216.2	384.3	709.5	1,063.6
Liabilities	-63.7	-56.0	-44.1	-38.0	-51.1	-38.5	-31.1	-14.4
Deposit money banks	104.4	37.9	-9.9	14.6	126.2	131.6	101.6	66.6
Assets	169.0	98.5	72.5	86.6	193.7	199.1	169.1	134.1
Liabilities	-64.6	-60.6	-82.5	-71.9	-67.5	-67.5	-67.5	-67.5
Net domestic assets	350.1	574.8	562.9	510.2	369.3	216.4	-51.3	-350.3
Net domestic credit	455.6	660.2	652.3	623.0	496.1	354.2	93.4	-191.1
Net credit to the public sector	98.6	241.0	196.7	210.2	121.6	-29.1	-313.3	-638.4
Net credit to the government	125.0	271.3	219.8	231.9	151.5	0.8	-283.4	-608.4
Central bank	114.2	223.6	130.7	146.5	94.3	-42.9	-321.0	-626.4
Claims	157.3	248.2	231.5	196.8	197.2	167.5	-34.0	-263.6
<i>Of which</i>								
Statutory advances	94.5	194.4	189.2	166.4	149.1	132.0	-62.1	-275.0
Use of IMF credit	62.8	53.8	42.2	30.4	48.0	35.5	28.1	11.4
Deposits	43.2	24.6	100.8	50.3	102.8	210.4	287.0	362.7
Deposit money banks	10.9	47.7	89.1	85.4	57.2	43.8	37.7	17.9
Post office savings	3.9	2.3	2.5	6.2	4.1	4.1	4.1	4.1
Claims on public agencies, net	-30.3	-32.6	-25.5	-27.9	-34.1	-34.1	-34.1	-34.1
Credit to the economy	356.9	419.2	455.6	412.8	374.5	383.4	406.7	447.3
Other items, net	-105.4	-85.4	-89.4	-112.8	-126.8	-137.8	-144.7	-159.2
Broad money	527.3	566.7	599.0	591.8	660.6	693.8	728.6	765.5
Currency outside banks	116.2	128.2	132.0	124.2	138.7	145.6	153.0	160.7
Demand deposits	204.3	204.0	214.7	220.9	250.5	263.0	276.2	290.2
Time deposits	206.9	234.5	252.3	246.7	271.5	285.1	299.4	314.6
	(Changes in percent of beginning-of-period broad money)							
Net foreign assets	49.5	-35.1	7.8	7.6	35.5	28.2	43.6	46.1
Net domestic assets	-31.5	42.6	-2.1	-8.8	-23.8	-23.1	-38.6	-41.0
Net domestic credit	-33.7	38.8	-1.4	-4.9	-21.4	-21.5	-37.6	-39.0
Net credit to the government	-39.6	27.7	-9.1	2.0	-13.6	-22.8	-41.0	-44.6
Credit to the economy	8.3	11.8	6.4	-7.1	-6.5	1.3	3.4	5.6
Broad money	18.0	7.5	5.7	-1.2	11.6	5.0	5.0	5.1
	(Annual percent changes, unless otherwise indicated)							
Credit to the economy	11.7	17.4	8.7	-9.4	-9.3	2.4	6.1	10.0
Broad money	18.0	7.5	5.7	-1.2	11.6	5.0	5.0	5.1
<i>Of which</i> : currency outside of banks	10.4	10.3	3.0	-5.9	11.7	5.0	5.0	5.1
Memorandum items:								
Velocity								
Non-oil GDP	3.8	3.7	3.4	3.4	3.4	3.3	3.3	3.3
Total GDP	7.4	6.3	5.9	5.9	5.8	6.1	6.1	5.9
Non-oil GDP growth	5.1	7.6	0.4	1.4	3.4	5.0	5.0	5.1
Total GDP growth	26.0	-4.7	0.0	2.0	8.5	11.3	5.0	1.4
Credit to the economy/non-oil GDP	19.2	21.0	22.7	20.3	17.8	17.4	17.5	18.4

Source: Bank of Central African States (BEAC).

Table 6. Gabon: Balance of Payments, 2001-07
(in billions of CFA francs unless otherwise indicated)

	2001	2002	2003	2004		2005	2006	2007
				Prog.	Prel.			
Current account (including transfers)	379.3	235.6	423.5	194.8	400.7	526.6	646.5	658.7
Exports, f.o.b.	1,916.0	1,781.2	1,847.1	1,800.6	2,244.7	2,605.7	2,779.9	2,783.6
Oil sector	1,535.9	1,435.4	1,553.6	1,442.3	1,800.9	2,116.5	2,234.8	2,185.9
Other sectors	380.1	345.8	293.4	358.3	443.7	489.2	545.0	597.7
Imports, f.o.b.	-621.2	-651.7	-605.9	-658.3	-722.5	-778.4	-822.2	-874.1
Oil sector	-214.1	-163.3	-124.3	-210.8	-216.3	-231.8	-228.7	-227.5
Non-oil private sector	-407.0	-488.3	-481.5	-447.5	-506.1	-546.4	-593.4	-646.5
Trade balance	1,294.8	1,129.5	1,241.2	1,142.2	1,522.1	1,827.3	1,957.7	1,909.5
Services (net)	-858.1	-802.5	-712.6	-900.8	-1,019.9	-1,198.6	-1,220.3	-1,171.2
<i>Of which</i>								
Interest on public debt (gross) 1/ 3/ 4/	-263.0	-118.9	-114.7	-138.7	-122.1	-109.4	-100.0	-88.2
Profits (net)	-132.9	-201.3	-202.7	-230.7	-272.5	-427.0	-485.9	-474.6
Current Transfers (net)	-57.4	-91.4	-105.1	-46.6	-101.5	-102.1	-90.9	-79.6
Capital Account	-576.3	-374.1	-477.2	-282.8	-407.0	-423.7	-313.9	-290.5
Capital Transfers (net)	1.9	1.8	25.1	0.0	2.7	2.6	3.0	3.4
Medium- and long-term capital	-286.4	-213.7	-189.6	30.9	-67.6	-70.3	-57.8	-64.1
Public sector 3/ 4/	-268.3	-226.5	-190.4	-139.9	-154.9	-175.3	-181.0	-184.7
Drawings (gross)	9.3	17.7	15.4	65.0	59.9	32.0	38.0	40.0
Project	9.3	17.7	8.7	20.0	17.8	32.0	40.9	42.4
Other (excluding IMF)	0.0	0.0	6.7	45.0	42.1	0.0	-2.9	-2.4
Amortization (gross) 2/	-277.5	-244.1	-205.7	-204.9	-214.8	-207.3	-219.0	-224.7
Direct investment and portfolio investment (net)	-67.6	42.1	10.0	116.7	118.5	133.3	144.8	142.1
Other capital inflows (net)	49.4	-29.4	-9.2	54.1	-31.2	-28.2	-21.5	-21.5
Oil sector	22.4	-3.5	22.5	23.5	-8.4	-6.4	-3.0	-8.0
Non-oil sector	27.0	-25.8	-31.7	30.6	-22.8	-21.8	-18.5	-13.5
Short-term capital	-291.8	-162.2	-312.7	-313.7	-342.1	-356.1	-259.1	-229.8
Oil sector	-69.3	2.0	-55.2	-84.4	-104.3	-67.3	-76.8	-47.0
Non-oil sector	-138.1	-67.6	-162.5	-229.3	-237.8	-288.7	-182.2	-182.8
Errors and omissions	-84.3	-96.7	-95.0	0.0	0.0	0.0	0.0	0.0
Overall Balance	-197.0	-138.5	-53.7	-88.0	-6.3	102.9	332.6	368.2
Financing	197.0	138.5	53.7	-383.4	6.3	-102.9	-332.6	-368.2
Central Bank, net foreign assets (- = increase)	119.1	-92.0	-20.9	-57.4	-97.7	-180.6	-332.6	-370.8
IMF Liabilities (- = decrease)	-7.1	-13.5	-11.8	19.0	19.2	-12.6	-7.4	-16.7
Other net assets (- = increase)	126.1	-78.5	-9.0	-76.4	-116.9	-168.1	-325.2	-354.1
Debt rescheduling 4/	0.0	1.3	0.0	0.0	254.1	249.3	0.0	0.0
Debt cancellation (and other) 4/	17.0	11.9	11.1	0.0	2.7	2.6	0.0	2.6
Arrears net (- = reduction)	60.9	217.4	63.5	-326.0	-326.9	0.0	0.0	0.0
Other exceptional financing 4/ 5/	0.0	0.0	0.0	0.0	174.1	-174.1	0.0	0.0
Financing gap 6/	0.0	0.0	0.0	471.5	0.0	0.0	0.0	0.0
Memorandum items:								
Current account (including official transfers)	11.0	6.8	12.0	5.8	10.5	12.4	14.5	14.6
Oil	27.2	26.2	34.3	21.6	27.7	28.0	28.8	28.3
Non-oil	-16.2	-19.4	-22.3	-15.9	-17.2	-15.6	-14.3	-13.7
Current account (excluding official transfers)	10.8	7.5	12.8	5.5	10.4	12.3	14.4	14.4
Capital account	-16.7	-10.8	-13.6	-8.4	-10.7	-10.0	-7.0	-6.4
Overall balance	-5.7	-4.0	-1.5	-2.6	-0.2	2.4	7.5	8.1
Gross official reserves (in billions of CFA francs)	9.9	90.1	104.9	181.3	216.2	384.3	709.5	1,063.6
In months of imports of GNFS	0.1	0.9	1.2	1.9	1.9	3.3	6.0	8.8
World oil price (U.S. dollars/barrel)	24.3	25.2	28.9	30.0	38.2	50.7	53.0	51.8
National oil price (U.S. dollars/barrel)	22.6	24.2	27.6	28.9	35.6	46.0	48.3	47.0
Oil production (in million tons)	13.0	12.6	13.5	13.3	13.6	13.4	13.4	13.4
Exchange rate CFA francs per U.S. dollar (average)	732.4	695.4	580.1	532.6	528.3	488.4	...	...

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

1/ In 2004, it excludes late interest for approximately CFAF 4 billion that remains to be reconciled with the French Treasury

2/ In 2003, it includes (cumulated) debt cancellation by Agence Francaise de Developpement and Banque de France for 2004-13.

3/ It includes both direct and guaranteed debt.

4/ For 2004-06, it may change after bilateral agreements with Paris Club, Bilateral and London Club creditors will be concluded

5/ In 2004-05, it includes the deferral of 50 percent of arrears on principal and 35 percent of arrears on interest with Paris Club Creditors.

The rescheduling of such arrears will only become effective provided the second review under the SBA is completed.

6/ The financing gap for the program period was covered in part by a debt rescheduling.

Table 7: Gabon: External Debt Outstanding and Scheduled Debt Service, 2001-07 1/

	2001	2002	2003	2004	2005	2006	2007
	Projections						
	(in billions of CFA francs)						
Total medium- and long-term debt	2,176.5	2,166.1	1,969.6	1,894.5	1,784.6	1,599.1	1,398.7
Debt Outstanding (as of December, 2004)	2,176.5	2,166.1	1,969.6	1,391.1	1,184.9	972.4	757.0
<i>Of which arrears 2/</i>	61.1	278.3	326.9	--	--	--	--
Multilateral	362.3	320.5	242.3	192.0	155.8	120.4	89.2
<i>Of which non-IMF</i>	308.5	276.2	210.6	174.9	148.8	116.9	86.7
IMF (before SBA 04)	53.8	44.3	31.7	17.1	7.0	3.5	2.5
Bilateral	1,697.9	1,711.2	1,636.3	1,169.3	1,006.7	835.8	653.0
Paris Club	1,646.8	1,669.3	1,594.5	1,136.8	976.4	808.1	628.0
Other bilateral	51.1	41.9	41.8	32.5	30.2	27.6	25.0
Debt diverse	83.7	86.9	41.5	29.8	22.5	16.2	14.8
London Club	26.8	21.1	18.6	--	--	--	--
Unpaid Interest on arrears (IDR) 3/	5.8	26.3	31.0	--	--	--	--
New Debt 4/	--	--	--	503.4	599.6	626.7	641.7
IMF	--	--	--	31.4	28.9	25.0	9.3
Project-Program	--	--	--	65.0	97.0	135.0	175.0
Paris Club VIII (2004)	--	--	--	398.7	473.8	473.8	473.8
London Club	--	--	--	--	-6.9	-11.9	-16.8
Other bilateral	--	--	--	7.5	6.8	4.8	2.8
Remaining gap financing	--	--	--	--	--	--	-2.5
Total debt service due (including IMF) 5/	548.4	403.2	318.8	347.5	326.5	323.3	326.1
<i>Of which reschedulable</i>	--	--	156.2	151.3	153.1	156.5	159.3
Principal	306.3	244.7	206.8	225.2	217.3	223.5	238.0
Interest	242.1	158.5	112.0	122.3	109.2	99.8	88.1
Multilateral	99.6	64.2	58.1	64.8	48.6	48.7	41.8
Non-IMF	88.7	51.8	49.0	51.2	37.0	44.1	40.2
IMF Outstanding	10.9	12.3	9.1	13.6	11.6	4.6	1.6
Bilateral	383.7	269.2	233.8	231.8	230.0	229.2	230.4
Paris Club	378.8	263.2	231.8	229.0	227.6	226.5	227.7
Paris Club pre-cutoff	272.4	184.2	180.4	178.3	186.8	194.4	201.5
Never rescheduled (NPRD)	8.8	5.2	1.8	1.8	1.7	0.8	0.8
Paris Club I	--	--	--	--	--	--	--
Paris Club II (1987)	--	--	--	--	--	--	--
Paris Club III (1988)	--	--	--	--	--	--	--
Paris Club IV (1989)	26.4	--	--	--	--	--	--
Paris Club V (1994)	100.0	91.4	90.9	88.0	93.5	95.8	97.1
Paris Club VI (1995)	152.8	52.8	52.7	54.4	55.5	57.2	58.8
Paris Club VII (2000)	44.1	27.2	35.1	34.1	36.2	40.6	44.9
Paris Club post-cutoff (PCOD)	67.4	48.2	51.4	50.7	40.8	32.1	26.3
Other bilateral (Non guaranteed credit)	4.9	6.0	2.1	2.9	2.4	2.7	2.7
Debt Diverse (Non PC creditors)	49.7	59.4	18.1	11.6	7.9	6.3	1.4
London Club	15.5	10.5	8.8	4.2	--	--	--
Interest on arrears (IDR) 3/	--	--	--	31.0	--	--	--
New debt (includes residual gap filling)	--	--	--	4.1	39.9	39.0	52.6
Principal	--	--	--	1.9	11.2	10.9	22.6
<i>Of which Paris Club VIII (2004)</i>	--	--	--	--	--	--	--
<i>Of which IMF</i>	--	--	--	--	2.5	3.9	15.7
Interest	--	--	--	2.1	28.7	28.2	29.9
<i>Of which Paris Club VIII (2004)</i>	--	--	--	1.5	23.8	21.6	21.6
<i>Of which IMF</i>	--	--	--	0.3	0.5	0.6	0.6

Table 7. Gabon: External Debt Outstanding and Scheduled Debt Service, 2001-07 1/ (concluded)

	2001	2002	2003	2004	2005	2006	2007
					Projections		
	(In billions of CFA francs)						
Debt cancellation 6/	34.0	23.8	19.1	--	--	--	--
Debt outstanding	17.0	11.9	11.1	--	--	--	--
Arrears	17.0	11.9	8.0	--	--	--	--
Change in arrears (--reduction)	95.4	354.4	95.9	-326.9	--	--	--
Principal	60.9	217.4	63.5	-186.6	--	--	--
Interest	34.5	137.1	32.4	-140.3	--	--	--
Other	--	--	-3.1				
Debt rescheduling/deferral 6/	--	2.6	--	428.2	75.2	--	--
Debt service rescheduling	--	2.6	--	101.6	75.2	--	--
Principal	--	1.3	--	65.7	51.1	--	--
Interest	--	1.3	--	35.9	24.0	--	--
Arrears rescheduling	--	--	--	152.6	174.1	--	--
Principal	--	--	--	98.8	120.9	--	--
Interest	--	--	--	53.7	53.2	--	--
Deferred payments 9/	--	--	--	174.1	-174.1	--	--
Principal	--	--	--	120.9	-120.9	--	--
Interest	--	--	--	53.2	-53.2	--	--
Debt service paid (including IMF)	493.9	190.1	274.3	--	--	--	--
Principal	266.3	150.1	202.7	--	--	--	--
Interest	227.6	40.0	71.6	--	--	--	--
	(In percent)						
Memorandum items:							
External public debt/GDP							
Including IMF	63.1	62.8	56.0	49.6	42.0	35.8	30.9
Excluding IMF	54.2	54.8	50.0	44.2	37.8	32.7	28.8
External public debt/exports 7/ 6/							
Including IMF	106.7	117.7	103.3	82.2	66.9	56.3	49.2
Excluding IMF	91.6	102.6	92.2	73.2	60.3	51.3	45.8
Debt-service ratio 7/ 6/							
Due (before relief)	26.9	21.9	16.7	15.1	12.2	11.4	11.5
Principal	15.0	13.3	10.8	9.8	8.2	7.9	8.4
Interest	11.9	8.6	5.9	5.3	4.1	3.5	3.1
Paid	24.2	10.3	14.4	--	--	--	--
Principal	13.1	8.2	10.6	--	--	--	--
Interest	11.2	2.2	3.8	--	--	--	--
Debt service/government revenue 8/ 6/							
Due (before relief)	46.7	37.1	30.4	34.0	29.4	33.5	28.2
Paid	40.0	16.2	23.4	--	--	--	--
Debt service/non-oil GDP 6/							
Due (before relief)	27.4	20.1	15.7	16.5	14.8	13.9	13.4
Paid	24.7	9.5	13.5	--	--	--	--

Sources: Gabonese authorities; and staff estimates and projections.

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

2/ Arrears through end-2002 were due to multilateral and bilateral creditors, and to commercial banks. By end-2003, CFAF 321 billion correspond to reschedulable debt. The rest correspond to CFAF 4.8 billion of arrears on nonreschedulable debt that were cleared during the first quarter of 2004. It excludes possible arrears with Libya and Iran that are in the process to be reconciled.

3/ In 2003-04, it excludes late interest for approximately CFAF 4 billion that remains to be reconciled with the French Treasury

4/ Includes residual gap filling.

5/ Debt service is net of cancellation.

6/ For 2004-06 it may change after bilateral agreements with Paris Club, other Bilateral and London Club creditors will be concluded.

7/ In percent of exports of goods and services.

8/ Government revenue, excluding grants.

9/ Triggered after the successful completion of the second review under the SBA.

Table 8. Gabon: External Financing Requirements and Sources, 2003-07
(In billions of CFA francs)

	2003	2004	2005	2006	2007
			Projections		
1. Gross financing requirements	293.9	-270.4	136.2	92.6	63.1
External current account deficit (excl. official transfers)	449.9	398.6	521.6	641.2	653.2
Debt amortization	-198.6	-212.1	-204.7	-216.1	-219.3
Medium and long-term debt	-198.6	-212.1	-204.7	-216.1	-220.3
Public sector	-172.0	-196.3	-190.5	-204.8	-214.0
Multilateral 1/	-31.8	-34.7	-26.1	-31.9	-30.2
Bonds and notes	0.0	0.0	0.0	0.0	1.0
Bilateral	-140.2	-161.6	-164.4	-172.9	-184.8
Commercial banks	-8.5	-4.1	-6.9	-5.0	-5.0
Corporate private sector	-18.1	-11.6	-7.3	-6.3	-1.4
Short-term debt 2/	0.0	0.0	0.0	0.0	1.0
Repayment of arrears	63.5	-326.9	0.0	0.0	0.0
Gross reserves accumulation	-9.0	-116.9	-168.1	-325.2	-354.1
IMF repurchases and repayments	-11.8	-13.1	-12.6	-7.4	-16.7
2. Available financing	-406.8	270.4	-136.2	-92.6	-61.1
Foreign direct investment (net)	10.0	118.5	133.3	144.8	142.1
Debt financing from private creditors	-321.8	-373.3	-384.3	-280.6	-251.3
Medium- and long-term financing	-9.2	-31.2	-28.2	-21.5	-21.5
To public sector	0.0	0.0	0.0	0.0	0.0
<i>Of which: balance of payments financing 3/</i>	0.0	0.0	0.0	0.0	0.0
To commercial banks	0.0	0.0	0.0	0.0	0.0
To corporate private sector	-9.2	-31.2	-28.2	-21.5	-21.5
Short-term financing	-312.7	-342.1	-356.1	-259.1	-229.8
<i>Of which: balance of payments financing 3/</i>	0.0	0.0	0.0	0.0	1.0
Official creditors 4/	-11.1	62.0	37.0	43.3	45.5
Multilateral 1/	-0.4	50.1	14.8	15.6	16.8
<i>Of which: balance of payments financing 3/</i>	-3.9	42.9	2.0	-0.8	-0.2
Bilateral	-10.6	11.9	22.2	27.7	28.8
To public sector	-10.6	11.9	22.2	27.7	28.8
<i>Of which: balance of payments financing 3/</i>	-15.8	1.3	3.0	3.2	3.3
To private sector	0.0	0.0	0.0	0.0	1.0
IMF	0.0	32.2	0.0	0.0	0.0
Debt rescheduling, deferral and cancellation	11.1	430.9	77.8	0.0	2.6
Financing gap	0.0	0.0	0.0	0.0	0.0
Other flows 5/	-95.0	0.0	0.0	0.0	0.0
Memorandum item:					
Total balance of payments financing 3/	-8.7	507.4	82.8	2.4	5.7

1/ Excluding the IMF.

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

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

4/ Includes both loans and grants.

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

Table 9. Gabon: Income and Social Indicators, 1980–2002

	Gabon					Same Region/Income Group	
	1980–85	1990	2000	2001	2002	Sub-Saharan Africa	Upper-middle income
Population							
Total population, midyear (millions)	0.8	0.9	1.2	1.3	1.3	702.6	647.0
Growth rate (annual average, in percent)	3.3	3.0	2.3	2.2	2.2	2.6	1.3
Urban population (in percent of population)	65.2	68.1	81.5	82.0	82.9	34.0	76.0
Total fertility rate (births per woman)	4.5	4.8	4.5	4.2	4.1	5.3	2.7
Poverty (in percent of population)							
National head count index 1/	...	62.0 2/	...	...	...	...	...
Income							
GNP per capita (U.S. dollars)	3,900.0	4,470.0	3,327.7	3,100.0	3,060.0	450.0	5,407.0
Consumer price index (1995=100)	76.0	72.5	105.3	109.3	109.5	131.0	122.0
Food price index (1995=100)	76.0	72.5	104.8	...	...	130.5	...
Social indicators							
Public expenditure (in percent of GDP)							
Health	...	2.0	...	...	1.9	4.0	5.5
Education	5.0	...	...	...	2.4	4.1	5.0
Gross school enrollment rates (in percent of age group)							
Primary	172.0	168.0	...	151.0	150	78.0	107.0
Secondary	43.0	50.0	...	54.0	53	25.0	64.0
Tertiary	6.0	7.0	...	...	...	3.0	14.0
Access to improved water source (in percent of population)							
Total	58.0	60.0	77.2	86.0	...	58.2	...
Urban	75.0	77.0	93	...	...	...	...
Rural	34.0	33.0	35.2	...	...	...	...
Immunization rate (in percent of children under 12 months)							
Measles	58.0	78.0	...	55.0	55.0	57.0	78.0
DPT	24.0	76.0	...	37.0	38	59.0	75.0
Life expectancy at birth (years)							
Total	49.0	51.0	...	52.7	52.9	45.8	66.0
Male	47.0	49.0	...	51.0	...	46.0	65.0
Female	51.0	53.0	...	54.0	...	48.0	69.0
Mortality							
Infant (per 1,000 live births)	112.0	69.0	57.0	64.0	63.0	92.0	54.0
Under 5 (per 1,000 live births)	194.0	96.0	...	87.0	85.0	174.0	78.0
Adult (15-59)							
Male (per 1,000 population)	474.0	425.0	342.0	...	...	499.0	221.0
Female (per 1,000 population)	387.0	360.0	281.0	...	...	453.0	170.0
Maternal (per 100,000 live births)	600.0	500.0	519.0	420.0	...	917.0	...

Sources: World Bank, *World Development Indicators*, 2003; UN Statistics Division (2003); and Gabon's Demographic and Health Survey (2000).

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

2/ As of 1993.

Table 10. Gabon: Millennium Development Goals

	1990	1995	2001	2002	2015 Target
Goal 1: Eradicate extreme poverty and hunger					
Target 1: Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day.					
Population below \$1 a day (percent)	...	...	...	...	...
Poverty gap at \$1 a day (percent)	...	...	...	...	...
Percentage share of income or consumption held by poorest 20percent	...	...	...	...	...
Target 2: . Halve, between 1990 and 2015, the proportion of people who suffer from hunger.					
Prevalence of child malnutrition (percent of children under 5)	...	...	11.9	...	...
Population below minimum level of dietary energy consumption (percent)	11	9	7	...	5.5
Goal 2: Achieve universal primary education					
Target 3: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.					
Net primary enrollment ratio (percent of relevant age group)	...	...	78.3	...	...
Percentage of cohort reaching grade 5 (percent)	...	59.3	102.1	...	...
Youth literacy rate (percent ages 15-24)	...	...	...	...	...
Goal 3: Promote gender equality					
Target 4: Eliminate gender disparity in primary and secondary education preferably by 2005 and to all levels of education no later than 2015.					
Ratio of girls to boys in primary and secondary education (percent)	102.6	96.2	96	...	100
Ratio of young literate females to males (percent ages 15-24)	...	...	...	...	...
Share of women employed in the nonagricultural sector (percent)	43.2	...	...	...	...
Proportion of seats held by women in national parliament (percent)	...	6	...	...	...
Goal 4: Reduce child mortality					
Target 5: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate.					
Under 5 mortality rate (per 1,000)	96	91	87	85	32
Infant mortality rate (per 1,000 live births)	69	67	64	63	...
Immunization, measles (percent of children under 12 months)	76	57	55	55	...
Goal 5: Improve maternal health					
Target 6: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio.					
Maternal mortality ratio (modeled estimate, per 100,000 live births)	500	...	420	...	125
Births attended by skilled health staff (percent of total)	...	...	85.5	...	...
Goal 6: Combat HIV/AIDS, malaria and other diseases					
Target 7: Have halted by 2015, and begun to reverse, the spread of HIV/AIDS.					
Prevalence of HIV, female (percent ages 15-24)	...	...	4.7	...	...
Contraceptive prevalence rate (percent of women ages 15-49)	...	...	32.7	...	...
Number of children orphaned by HIV/AIDS	...	...	8600	...	...
Target 8: Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases.					
Incidence of tuberculosis (per 100,000 people)	...	...	192	248.4	...
Tuberculosis cases detected under DOTS (percent)	...	...	...	72.9	...

Table 10. Gabon: Millennium Development Goals (concluded)

	1990	1995	2001	2002	<u>2015</u> Target
Goal 7: Ensure environmental sustainability					
Targets 9: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources.					
Forest area (percent of total land area)	85.1	...	84.7	...	
Nationally protected areas (percent of total land area)	...	2.8	2.8	2.8	
GDP per unit of energy use (PPP \$ per kg oil equivalent)	3.7	4.2	4.7	...	
CO2 emissions (metric tons per capita)	7	3.4	2.8	...	
Target 10: Halve, by 2015, the proportion of people without sustainable access to safe drinking water.					
Access to an improved water source (percent of population)	60	...	86	...	93
Target 11: By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers.					
Access to improved sanitation (percent of population)	...	...	53	...	
Access to secure tenure (percent of population)	...	...	...	...
Goal 8: Develop a Global Partnership for Development					
Targets: Develop further an open, rule-based, predictable, non-discriminatory trading and financial system. Address the Special Needs of the Least Developed Countries. Address the Special Needs of landlocked countries and small island developing states. Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term. In cooperation with developing countries, develop and implement strategies for decent and productive work for youth.					
In cooperation with pharmaceutical companies, provide access to affordable, essential drugs in developing countries. In cooperation with the private sector, make available the benefits of new technologies, especially information and communications.					
Youth unemployment rate (percent of total labor force ages 15-24)	...	...	...	...
Fixed line and mobile telephones (per 1,000 people)	21.7	33.5	234	239.7	
Personal computers (per 1,000 people)	...	5.6	15.8	19.2	

Sources: World Bank; *World Development Indicators* 2004; and www.developmentgoals.org

Table 11. Gabon : Indicators of Financial Obligations to the Fund, 2000-07

	2000	2001	2002	2003	2004	2005	2006	2007
							Projections	
Outstanding use of Fund credit (end of period)								
In millions of SDRs	68.4	59.6	49.5	39.4	64.4	47.7	37.9	15.6
In billions of CFAF	63.6	53.8	44.3	31.7	48.5	35.9	28.5	11.8
In percent of government revenue and grants	5.3	4.6	4.1	3.0	4.4	2.8	2.1	0.9
In percent of exports of goods and nonfactor services (f.o.b.)	2.6	2.6	2.4	1.7	2.1	1.3	1.0	0.4
In percent of external public debt including the Fund	3.1	2.5	2.0	1.6	2.6	2.0	1.8	0.8
In percent of GDP	1.8	1.6	1.3	0.9	1.3	0.8	0.6	0.3
In percent of quota	44.3	38.7	32.1	25.6	41.7	30.9	24.5	10.1
Repurchases and charges due								
In millions of SDRs	10.4	11.7	11.8	11.2	18.2	18.8	11.3	23.0
In billions of CFAF	9.7	10.9	10.7	9.1	14.3	14.1	8.5	17.3
In percent of government revenue and grants	0.8	0.9	1.0	0.9	1.3	1.1	0.6	1.3
In percent of exports of goods and nonfactor services (f.o.b.)	0.4	0.5	0.6	0.5	0.6	0.5	0.3	0.6
In percent of external public debt including the Fund	0.5	0.5	0.5	0.5	0.8	0.8	0.5	1.2
In percent of GDP	0.3	0.3	0.3	0.3	0.4	0.3	0.2	0.4
In percent of quota	6.7	7.6	7.7	7.3	11.8	12.2	7.3	14.9
Net use of Fund credit (in millions of SDRs)	5.8	-8.7	-10.1	-10.1	24.9	-16.7	-9.8	-22.2
Purchases	13.2	--	--	--	41.7	--	--	--
Repurchases	7.4	8.7	10.1	10.1	16.7	16.7	9.8	22.2

Sources: IMF, Finance Department, Gabonese authorities, and staff estimates and projections.

Table 12. Gabon: Indicators of External Vulnerability, 1999–2004

	1999	2000	2001	2002	2003	2004
Exports (percent change, 12-month basis in U.S. dollars)	31.2	33.1	-21.4	-2.1	24.3	33.4
Imports (percent change, 12-month basis in U.S. dollars)	-21.6	-12.2	6.0	10.5	11.4	30.9
Terms of trade (percent change, 12-month basis)	37.9	-1.6	-10.6	-1.5	24.7	1.6
Current account balance, incl. grants (in percent of GDP)	8.4	19.7	11.0	6.8	12.0	10.5
Gross official reserves (in millions of U.S. dollars)	22.8	191.2	13.8	136.9	194.1	214.4
Gross official reserves (in months of imports of goods and services of the following year) 1/	0.1	1.4	0.1	1.0	0.9	0.9
Gross reserves of the banking system (in millions of U.S. dollars) 1/	101.7	428.1	150.9	247.2	354.3	837.9
Gross reserves of the banking system (in months of imports of goods and services of the following year) 1/	0.6	3.2	1.1	1.8	1.7	3.5
Central bank short-term foreign liabilities (in millions of U.S. dollars) 1/	90.8	89.2	77.9	67.0	70.3	104.4
Official reserves/broad money (M2) (in percent) 1/	3.2	25.9	1.8	15.0	17.7	32.7
Total public and publicly guaranteed debt (in millions of U.S. dollars)	3717.1	2894.7	3029.6	3292.0	3644.3	3872.3
Total external debt to exports of goods and services (in percent)	130.4	82.9	106.7	117.7	103.3	82.2
External interest payments to exports of goods and services (in percent)	10.1	7.7	11.9	8.6	5.9	5.3
External amortization payments to exports of goods and services (in percent)	12.2	9.3	15.0	13.3	10.8	9.8
Exchange rate (per U.S. dollar, period average)	614.9	710.0	732.4	695.4	580.1	528.3
Exchange rate (per U.S. dollar, end of period)	619.5	713.5	718.4	658.0	540.5	489.2
Net foreign assets of commercial banks (in millions of U.S. dollars)	-3.1	146.3	52.8	-15.1	27.1	257.9

Sources: Gabonese authorities; and staff estimates.

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

Table 13. Gabon: Sources of Growth, 2003-07
(Annual percentage changes)

	Sectoral share of GDP (%) in 2003	2003	2004	2005	2006	2007
				Projections		
Real GDP Growth	100.0	2.4	1.4	2.2	2.7	3.0
Oil sector	28.2	6.6	-1.0	0.1	0.3	0.4
Non-oil sector	71.8	0.8	2.3	3.0	3.6	4.0
<i>Of which</i>						
Agriculture, Fishing and Agro-Industry	8.7	1.5	2.0	3.4	3.3	4.3
Logging activities and Wood Industry	2.9	4.2	-0.1	9.1	9.4	8.4
Mining (excluding oil related activities)	1.4	3.6	22.9	11.6	6.3	6.3
Services, Transport and Commerce	30.9	1.2	1.4	3.4	3.9	4.1
Construction, Water, Electricity, and other industries	27.8	0.0	2.3	1.3	2.6	3.1
Contribution to Non-Oil GDP Growth	100	0.8	2.3	3.0	3.6	4.0
Agriculture, Fishing and Agro-Industry	12.1	0.2	0.2	0.4	0.4	0.5
Logging activities and Wood Industry	4.0	0.2	0.0	0.4	0.4	0.4
Mining (excluding Oil related activities)	2.0	0.1	0.5	0.3	0.2	0.2
Services, Transport and Commerce	43.1	0.5	0.7	1.4	1.6	1.7
Construction, water, electricity, and other industries	38.8	0.0	0.9	0.5	1.0	1.2

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

Table 14. Gabon: Banking Sector Soundness Indicators, 1998-2004
(Ratios in percent)

	1998	1999	2000	2001	2002	2003	2004	2005 March
Capital adequacy								
Regulatory capital to risk-weighted assets	24.5	23.0	13.2	17.2	17.6	19.9	17.8	20.6
Ratio of total loans larger than 15 percent of capital to eight times capital 1/	4.5	3.1	2.4	7.3	4.5	7.8	5.9	5.0
Assets quality								
NPLs to total gross loans	8.9	9.4	6.6	8.6	11.4	13.8	15.8	15.4
NPLs to total capital	32.3	36.7	35.0	35.2	52.9	59.4	66.8	43.1
NPLs provisions to total NPLs	37.2	36.1	64.7	63.0	66.5	78.8	78.4	72.0
Earnings and profitability								
Interest margin to gross income	184.7	182.6	159.8	173.8	187.1	206.0	...	...
Return on equity	28.8	31.2	60.2	36.8	35.3	30.9	...	...
Return on assets	5.6	5.4	6.2	5.6	5.2	4.7	...	...
Liquidity								
Liquid assets to short-term liabilities	127.0	134.6	125.4	128.8	134.0	185.3	219.5	...

Source: Bank of Central African States (BEAC).

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

Libreville, June 21, 2005

Mr. Rodrigo de Rato
Managing Director
IMF
Washington, D.C. 20431

Mr. de Rato:

The Government of Gabon has held discussions with Fund staff in the context of the fourth review of the program supported by the 14-month Stand-By Arrangement approved in May 2004. The attached Memorandum on Economic and Financial Policies reviews macroeconomic developments and the implementation of structural policies in the first quarter of 2005 and describes the government's economic policies for the remainder of 2005. Gabon's economic performance has continued to be satisfactory, all end-March performance criteria were met, and we intend to continue to pursue prudent macroeconomic policies for the remainder of the year. Accordingly, we hereby request completion of the fourth review under the SBA. We intend to continue to treat the arrangement as precautionary.

Sincerely yours,

/s/

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

Memorandum of Economic and Financial Policies, 2005

Recent economic developments and prospects

- 1. GDP growth is estimated to have reached 1½ percent in 2004.** Non-oil growth picked up slightly to 2¼ percent, thanks mainly to rising output in manganese mining; nevertheless, a decline in oil sector activity in 2004 represented a drag on overall growth performance. **Inflation** fell to ½ percent in 2004, reflecting wage moderation and the monetary discipline imposed by the exchange rate regime, and remained subdued in the first quarter of 2005. As a result, the real exchange rate depreciated slightly in 2004 and early 2005, and competitiveness remains satisfactory. The external position remains strong, with the current account surplus reaching 10½ percent of GDP in 2004 and Gabon's contribution to the BEAC's external assets more than doubling.
- 2. The fiscal stance remained tight in 2004.** Buoyant oil prices contributed to an overall budget surplus of 7½ percent of GDP. Oil windfall revenue was used primarily to reduce domestic and external debt and, to a lesser extent, increase government deposits in the Fund for Future Generations. At the same time, the non-oil primary deficit fell by ½ percentage point to 7¾ percent of non-oil GDP, reflecting both an improvement in non-oil revenue collection and expenditure restraint, notably on wages and salaries.
- 3. The economy strengthened in the first quarter of 2005.** While oil production remained broadly stable, strong global demand for steel buoyed Gabon's production of manganese, which rose by more than 10 percent over the first quarter of 2004, and timber production and exports recovered sharply from their depressed levels of 2004. Rising output of construction materials and a robust increase in the consumption of energy provide additional evidence that a broad-based economic recovery is underway. The strength in the economy was reflected in good non-oil revenue performance during the first quarter, which together with continued expenditure control has allowed the government to meet its fiscal objectives and observe the performance criteria on the primary surplus and net credit to the Government for end-March 2005 under the Stand-By Arrangement.
- 4.** Since the debt rescheduling agreement concluded with Paris Club creditors on June 11, 2004, negotiations for bilateral agreements have been completed with all creditors, except with Brazil where an agreement has been reached and final signature is pending. In view of our strong external position, we are not requesting any rescheduling of maturities falling due beyond end-June 2005. With respect to its debt to non-Paris Club bilateral creditors, Gabon continues to pursue negotiations with Saudi Arabia, China, Libya, and South Korea. An agreement with the London Club of commercial creditors has been reached and is expected to be signed by mid-July 2005.

Policies for the remainder of 2005

5. **The economic outlook for 2005 is positive.** We expect oil production to remain at its 2004 level, while prices will remain favorable despite the deeper discount applied to Gabonese oil. In the non-oil sector, we expect manganese and timber exports to remain strong and the recovery in construction and agroindustry to continue. As a result, we expect non-oil GDP growth to accelerate to at least 3 percent in 2005. Meanwhile, inflation is not expected to exceed 1 percent and the external position is expected to remain strong, with the current account surplus rising to 12½ percent of GDP and a further build-up of exchange reserves. Accordingly, we expect that the external public debt/GDP ratio will fall from 50 percent at end-2004 to 42 percent by end-2005.

6. **Fiscal policy for the remainder of the year will adhere to the 2005 budget law.** We expect non-oil revenue to increase as anticipated and reach the target of 25.2 percent of non-oil GDP, a one percentage point increase over 2004. Oil revenues, on the other hand, are likely to be slightly below target as a result of the widening discount for Gabonese oil this year. On the expenditure side, we intend to maintain strict control of civil service wages through a series of measures aimed at ensuring that the 2005 wage bill remains unchanged in nominal terms over the previous year. However, there are two areas in which expenditures will exceed planned levels and we intend to adopt a supplementary budget, probably toward the end of the third quarter, to incorporate these additional expenditures. First, the financial situation of Air Gabon has reached critical proportions and we have decided to proceed with its liquidation (see paragraph 10). This will, however, have important financial implications for the government: to ensure operations until liquidation takes place; to meet legal redundancy payments to Air Gabon staff; and to settle Air Gabon's outstanding payment arrears after a detailed audit and their integration in public debt. Provisional estimates, which will be refined before end-July 2005, suggest that the total gross cost could reach CFAF 43-53 billion (1-1¼ percent of GDP), not including any proceeds from asset sales. Second, after the PRSP has been finalized (expected in August 2005 – see paragraph 17), we intend to identify urgent financing needs aimed directly at poverty reduction. We intend to address these needs primarily in the context of the 2006 budget; nevertheless, there could be some expenditures in 2005, which however would not exceed CFAF 5 billion. As a result, we now expect the non-oil primary deficit to fall at a slower pace than originally envisaged, reaching about 6¾ percent of non-oil GDP in 2005.

7. **Fiscal policy over the medium-term will aim at further steady consolidation.** In view of our finite oil resources and associated government revenue it will be necessary to maintain a strong non-oil revenue effort and continue to streamline expenditures, particularly on the wage bill. At the same time, we intend to manage oil revenue prudently and saving the full amount of oil-related revenue resulting from oil prices in excess of US\$35 per barrel of Brent, which will allow us to maintain the pace of reducing the level of public debt to more manageable levels. To this end, we intend to reduce the non-oil primary deficit as a ratio of non-oil GDP by roughly 1 percentage point per annum over the next three years. However, this objective could be adjusted downward as a result of well-defined financing needs

identified in the PRSP, provided that the fiscal adjustment remains consistent with maintaining public debt sustainability.

8. **Reforms of our fiscal management systems are underway to strengthen both the revenue basis and improve expenditure control.** The Large-Tax Payer Unit (LTU) will assist the Tax Directorate in the assessment of a number of large cases this year before becoming fully operational in 2006. Significant progress has been made this year in land titling, which has strengthened the finances of the local authorities by broadening their property tax base. And improved cash management at the Treasury has allowed us to settle government bills in an orderly manner and reduce the Treasury float significantly. But an important agenda remains to improve public expenditure management. In preparation of the 2006 budget law over the coming months, we intend to improve the coordination between the current and the investment budgets by reintroducing joint budgetary conferences and harmonize the technical preparation of the budgets between the Ministry of Finance and the Ministry of Planning. We also intend to elevate the status of the 3-year Public Investment Program, which currently is largely indicative, to become a more binding framework for public investment spending. Finally, we intend to bring to a rapid conclusion the work in introducing a functional budget classification, which will allow for a significant improvement in budgetary management, notably in the execution of the 2006 budget.

9. **Comprehensive structural reforms are critical to diversifying the economy and improving Gabon's economic growth prospects.** To that end, the Government remains committed to the privatization of certain public enterprises, to improving the investment climate in Gabon, to reinforce the financial sector as a foundation for private-sector led growth, and to reform the sector of natural resources, which will be critical to Gabon's future prosperity and growth.

10. **The Government's privatization program is underway.** The Government has reached a cross-debt cancellation agreement with Gabon Telecom and private mobile telephone operators to streamline Gabon Telecom's balance sheet. Over the coming weeks we will eliminate the remaining uncertainties in GT's balance sheet, including the status of its assets, so that it can be rapidly brought to tender. We have established a timetable that aims at divesting a majority stake in GT by September 2005. Concerning Air Gabon, we intend to proceed rapidly with its liquidation. Redundancy procedures for its personnel have been initiated and should be concluded by October 2005 at the latest. By end-July we expect to have completed the audit of Air Gabon's outstanding debts, as well as its claims, which will allow us to quantify more precisely the costs of the liquidation. In the meantime, discussions with potential buyers will start with the objective of creating a new airline company with a majority private sector participation, which would be managed on a commercial basis. Detailed documentation has been sent to a limited number of potential investors with a response deadline of July 18 and we expect to choose the strategic partner by end-July 2005. The new company is expected to become operational in early 2006.

11. **The Government is preparing an action plan to improve the investment climate in Gabon.** Following the report by the FIAS and the work shop held with the private sector

last February, the Government is finalizing a program that aims to tackle the main problems identified by the private sector: (i) improve access to financing for SMEs; (ii) reduce factor costs, particularly the very high costs of port and transport operations; (iii) restructure the Investment Promotion Agency with the aim of streamlining the process of establishing a new business; (iv) simplify administrative procedures and improve the environment for foreign investors; (v) finalize the new tax code and effectively eliminate parafiscal taxes; (vi) boost the supply of skilled labor by modernizing the vocational training centers; (vii) strengthen the administrative environment by improving the functioning of the courts and encouraging a wider dissemination of the new company law of OHADA; and (viii) facilitate investors' access to real estate.

12. **Financial sector reforms are a key element to boosting private sector development in Gabon.** Improved access to credit is particularly important for small and medium-sized enterprises. As a first step, we intend to align the tax treatment of banks' provisions with the norms of the COBAC that apply throughout the CEMAC zone, followed by further regulatory and legal harmonization. Regarding the promotion of microfinance, a government working group is developing a strategy, which will focus initially on capacity building.

13. **The government has launched a major reform of the natural resources sector, beginning with the forestry sector.** The monopoly of the timber marketing board (SNBG) has been lifted effective January 1, 2006, and work is underway to define the role of a down-sized SNBG. The government has initiated a policy of transparency in the forestry sector: a comprehensive list of holders of forest permits was published in February and the Government announced that all holders that do not clear their arrears or agree to a well-defined repayment schedule, will be subject to the seizure of their permits. The first seizures will take place in August 2005.

14. **The Government remains committed to strengthening governance and transparency aimed at improving the management of public resources and boosting private sector development.** The National Commission Against Illicit Enrichment is making satisfactory progress and a large number of civil servants have submitted their asset declarations. In the public sector, the audit of the arrears of the Road Maintenance Fund and of the expenditures related to the annual independence celebrations (fêtes tournantes), are expected to be finished by end-June and will be published on the web site of the Finance Ministry. The lessons from these audits will be taken into account in the preparation of the 2006 budget and the establishment of a new road maintenance fund. While ensuring full and smooth replenishment of the new road fund so that it can provide properly for the maintenance of Gabon's road network, the new procedures will ensure that the management of the fund continues to respect public procurement and accounting rules, and its full and timely integration in all fiscal reporting.

15. **Transparency is being further improved through Gabon's participation in the Extractive Industries Transparency Initiative (EITI).** A first meeting of the stakeholders group, comprising the government, the oil companies, and civil society is scheduled for July

2005. On this occasion, the government will present an action plan aimed at meeting the EITI principles by September 2005. The stakeholders group will define the reporting template for the financial flows between the government and the private sector; the oil companies will have their payments audited; the Supreme Audit Office will certify government revenues; and an independent auditor will verify the aggregation of oil company data and their reconciliation with government revenues. The government intends to establish a web site to ensure the transparency of this information and will publish the audit of the first reconciliation by end-September 2005. We expect that independent certifications will be done on at least a semi-annual basis. Gabon intends to extend the initiative to the mining sector in 2006.

16. **The Government is also committed to improving its data dissemination practices and, over the medium term, strengthen the quality of its economic statistics.** A new Statistical Law has reached an advanced stage of dissemination and is expected to be adopted by end-2005. In the meantime, the Government intends to update the information contained in its GDDS page by end-June 2005 and formulate an action plan by end-September to improve the dissemination of statistical information that is currently prepared but not systematically published.

17. **Work on the Poverty Reduction Strategy Paper (PRSP) is making good progress and we still expect it to be completed by August 2005.** The quick poverty survey (questionnaire on core welfare indicators—CWIQ) is currently being conducted and will be completed by end-June. Its evaluation, including an update of poverty indicators as well as other social indicators, will be available by end-July. Consultations with civil society and the private sector are also underway. The government intends to use this work, together with the results of the public expenditure review scheduled for June-July, to prioritize the three-year public investment program and harmonize it with the 2006 budget.

Table 1. Gabon: Quantitative Performance Criteria and Indicative Targets Under the Stand-By Arrangement, 2004-05
(In billions of CFA francs; end-period data; cumulative flows from January 1st) 1/

	2004			2005			Indicative			
	Mar. Prel.	Jun. Prel.	Sept. Prel.	Dec. Prel.	Prog.	Mar. Prel.		Deviation	Jun.	Sep.	Dec.
Performance criteria										
Ceiling on the net claims of the banking system on the central government 2/										
Adjusted target 2/										
Ceiling on the contracting or guaranteeing of new nonconcessional external debt with maturity of over 1 year by the central government 3/	-22.4	-61.4	-48.5	-86.0	25.2	-20.2				
Ceiling on outstanding stock of new nonconcessional external debt with original maturity of one year or less owed or guaranteed by the central government 4/	2.5	9.5	13.4	59.9	32.0	32.0				
Ceiling on the accumulation of external payments arrears by the central government 5/	0.0	0.0	0.0	0.0	0.0	0.0				
Stock of arrears on domestic debt of the central government 6/	14.1	5.5	5.5	0.0	0.0	0.0				
Adjusted target 6/	0.0	0.0	0.0	1.9	0.0	0.0				
Floor on the primary fiscal balance of the central government, excl. grants and foreign-financed investment (on a payments order basis) 7/	116.6	233.6	339.6	453.0	111.3	137.2				
Adjusted target 7/							18.3	290.7	428.5	589.0
Indicative targets:										
Floor on non-oil central government revenue	124.5	245.3	362.0	511.5	116.2	116.2				
Ceiling on the central government wage bill on a payments order basis	55.4	110.1	168.3	226.3	56.2	55.1				
Ceiling on total noninterest domestic expenditure of the central government, on a payments order basis 8/	154.5	296.2	462.0	658.5	160.5	149.9				
Floor on current expenditure for the sectors of education, health and social assistance.	7.2	17.2	25.8	35.2	8.0	8.4				
Floor on the net reduction of unpaid payments orders at the treasury 9/			0.0	-67.4	-39.3	-58.8				
			0.0							
Memorandum items:										
Nonproject external financing disbursements (excluding IMF)	0.0	0.0	0.0	44.2	0.8	0.0				
External debt service due (excluding IMF)	83.6	147.4	244.2	327.6	96.3	85.7				
Domestic debt service due	9.6	36.7	57.5	83.4	17.3	36.8				
Oil revenue	146.6	284.5	439.7	600.0	181.5	155.6				
Rescheduling of external debt 10/	0.0	395.4	419.0	425.4	46.4	45.2				
Privatization proceeds	0.0	0.0	0.0	1.7	0.0	0.0				

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

1/ Indicative targets for end-March 2004, end-June, end-September, end-December 2004, and end-March 2005 are performance criteria under the SBA.

2/ The performance criterion will be adjusted upward/downward for any lower/higher oil revenues, larger/lower payment of external debt service (net of nonproject external financing disbursements), larger/smaller net reductions in domestic arrears, and smaller/larger privatization proceeds, relative to program targets. The performance criterion will be adjusted downward for unprogrammed rescheduling/deferral on domestic debt.

3/ This performance criterion applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt, adopted by the IMF Executive Board on August 24, 2000, but also to commitments contracted or guaranteed for which value has not been received. Excluded from this performance criterion are rescheduling arrangements and purchases from the Fund. For purposes of this performance criterion,

the term "nonconcessional" means that the debt has a grant element of less than 35 percent, calculated on the basis of currency-specific discount rates that are based on the OECD commercial interest reference rates (CIRRs).

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

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

6/ As defined in paragraph 10 of the Technical Memorandum of Understanding (TMU). The ceiling on bank financing will be adjusted downward/upward for unprogrammed rescheduling/deferrals.

7/ The performance criterion on the primary fiscal balance will be adjusted upward/downward for any higher/lower-than-programmed oil revenue. For end-December 2004, the original program target has been revised

to reflect the higher oil revenue and the upward adjustment in current spending by CFAF 1 billion.

8/ Noninterest spending excluding foreign-financed investment.

9/ Including the reduction of arrears on the wage bill and the payment of compensations for social violence.

10/ These amounts represent rescheduled end-April 2004 stock of arrears and the obligations falling due during May-December 2004 and January-June 2005, in line with the Paris Club agreed minutes of June 11, 2004.

11/ As revised in Country Report No. 05/5

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

Measures	Implementation Period	Status of Implementation
Structural performance criteria		
<i>Fiscal policy/Development of the private sector</i>		
Adoption of a decree establishing the large enterprise tax unit within the tax administration department, which covers all enterprises with annual turnover over CFAF 1 billion.	End-September 2004	Met.
<i>Forestry sector</i>		
Adoption of time-bound action plan to streamline SNBG, on the basis of World Bank-financed study.	End-November 2004	Met in December 2004.
Structural benchmarks		
<i>Civil service reform</i>		
Harmonization of the civil service and payroll rosters, based on the computerized civil service management system (ANITA).	End-December 2004	Met with the introduction of a unified personnel roster (<i>fichier unique de référence – FUR</i>)
Adoption of implementing decrees on the new wage structure and promotion system, on the basis of the new law on the general civil service statute.	End-December 2004	Not met. Draft law approved by parliament in January 2005. Implementing decrees delayed until the law is assessed.
<i>Fiscal policy</i>		
Integration in the 2005 government budget of all special funds.	End-December 2004	Not met. Only accounts of the National Housing Fund and the local authorities will be integrated through a supplementary budget in 2005.

Table 2. Gabon: Structural Performance Criteria and Benchmarks
Under the Stand-By Arrangement, 2004–05 (continued)

Measures	Implementation Period	Status of Implementation
No granting of exemptions to any company beyond those already provided for under the mining, forestry, and investment code, and no renewal of existing exemptions.	Continuous benchmark	Not met. A convention signed with a leading manganese company extends existing exemptions.
Completion of assessment of stock of wage arrears.	End-September 2004	Met.
Finalization of taxable base for local real estate taxation for Libreville and Port-Gentil.	End-December 2004	Met.
Establishment of detailed budgetary appropriations for investment expenditures, according to the budgetary classification, in the 2005 Budget Law submitted to parliament.	End-December 2004	Met.
Entry into effectiveness of budgetary credits for the 2005 budget before end-February 2005.	End-February 2005	Met.
Establishment of a performance contract with the National Social Guarantee Fund, CNGS.	End-September 2004	Met in mid-November, 2004.
Issuance of interministerial report on local authorities' finances.	End-October 2004	Met.

Table 2. Gabon: Structural Performance Criteria and Benchmarks
Under the Stand-By Arrangement, 2004–05 (continued)

Measures	Implementation Period	Status of Implementation
Preparation of a study with recommendations to prioritize the university scholarship system.	End-October 2004	Met.
Adoption of an action plan based on additional recommendations by a commission chaired by the Deputy Prime Minister. ¹	End-May 2005	Not met. Draft action plan still in preparation.
<i>Good governance</i>		
Preparation of the first report on the operations of the Commission Against Illicit Enrichment.	End-December 2004	Met.
Inclusion in the 2005 budget of an adequate operational budget for the National Commission Against Illicit Enrichment.	End-December 2004	Met.
<i>Development of the private sector</i>		
Adoption of the implementation regulations for the mining code.	End-December 2004	Not met. Delayed to the second half of 2005.
No recourse to price control measures, and no widening of the list of products subject to the price surveillance regime at end-December 2003.	Continuous benchmark.	Met.

Table 2. Gabon: Structural Performance Criteria and Benchmarks
Under Stand-By Arrangement, 2004–05 (Concluded)

Measures	Implementation Period	Status of Implementation
<i>Public Enterprises</i>		
Selection of the successful bidder for Gabon Télécom.	End-September 2004	Not met. Delayed to last quarter of 2005.
Achievement of a surplus in 2004 in the operational results of Air Gabon, before depreciation.	End December 2004	Not met.
Preparation by the consultant in charge of the partial privatization of Air Gabon of the documentation to select prequalified bidders. ¹	End-April 2005	Not met. Air Gabon is in process of liquidation.
<i>Trade reform</i>		
Removal of import surcharges on poultry and cigarettes.	End-December 2004	Met.

1/ Structural benchmarks added at the time of the second review of the stand-by arrangement.

Gabon: Relations with the Fund

(As of May 31, 2005)

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

II. General Resources Account:	SDR Million	% Quota
Quota	154.30	100.00
Fund holdings of currency	213.80	138.52
Reserve position in Fund	0.18	0.12

III. SDR Department:	SDR Million	% Allocation
Net cumulative allocation	14.09	100.00
Holdings	0.27	1.91

IV. Outstanding Purchases and Loans:	SDR Million	% Quota
Extended arrangements	14.71	9.53
Stand-By Arrangements	44.97	29.14

V. Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-by	May 28, 2004	June 30, 2005	69.44	41.66
Stand-by	Oct 23, 2000	Apr 22, 2002	92.58	13.22
EFF	Nov 8, 1995	Mar 7, 1999	110.30	60.67

VI. Projected Payments to Fund (Obligations Basis)

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

	Forthcoming			
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Principal	12.04	4.60	6.59	20.83
Charges/Interest	<u>1.22</u>	<u>2.08</u>	<u>1.90</u>	<u>1.49</u>
Total	13.25	6.67	8.49	22.32

VII. Implementation of HIPC Initiative: Not Applicable

VIII. Safeguards Assessments:

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

An updated safeguards assessment of the BEAC was completed on August 30, 2004 and found that the BEAC has implemented a number of measures to strengthen its safeguards framework since the 2001 safeguards assessment, but further progress needs to be made in key areas. A summary of the recommendations of the 2004 assessment were reported in (Country Report No. 05/3)

IX. Exchange Rate Arrangement:

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

Gabon’s exchange system is free of restrictions on payments and transfers for current international transactions.

X. Last Article IV Consultation:

- (a) Consultations with Gabon are on the 24-month cycle.
- (b) The last consultation was concluded by the Executive Board on March 28, 2005.

XI. FSAP Participation:

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

XII. Technical Assistance:

Department	Purpose	Time of Delivery
FAD	Budget management	March 2004
FAD	Tax policy and administration	November 2003
LEG	Law against illicit enrichment	June, July, and October 2003
FAD	Budgetary procedures and expenditure control	November 2000
STA	Multisector statistics mission	May 1998
FAD	Value-added tax administration issues	August 1997

XIII. Resident Representative:

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

Gabon: Relations with the World Bank

(Updated as of June 8, 2005)

1. Gabon is a resource rich country with a small, highly urbanized population. As one of Africa's few IBRD countries, Gabon's GDP per capita is estimated at US\$4,675 in 2003, well above the sub-Saharan African (SSA) average. Oil is Gabon's key economic sector and the principal driving force of its economic growth. However, the country's oil revenues are projected to decline over the next few years, and the government has started exploring the country's potential for economic diversification. The Bank is working closely with the IMF team to support structural measures, particularly in improving the environment for the development of the private and forestry sectors, and is assisting in the development of the local private sector in urban areas.

The Bank Group strategy and lending operations

2. The Gabon Country Assistance Strategy (CAS) was approved by the Board of Directors on May 24, 2005. The strategy is articulated around two pillars: (1) strengthening the management of public resources (both natural and financial) for improved social outcomes; and (2) improving the investment climate to foster sustainable, private sector led non-oil growth. Cross-cutting themes are developing capacity in Government, civil society, and improving governance and participation.

3. The Bank is presently in a base-case assistance program which includes three lending operations in the urban, natural resources, and infrastructure sectors: a US\$25 million Public Investment Program for Local Infrastructure Development Project and a US\$15 million Natural Resources Management Development Policy Loan for FY06, and a US\$25 million Infrastructure Project in FY08. Each operation places emphasis on improving transparency and efficiency in use of public resources, including natural resources, and on improving the environment for greater participation of the private sector.

4. Currently IFC has an exposure of US\$3.8 million in the oil and gas sector, and the World Bank Group's Foreign Investment Advisory Services (FIAS) has recently completed a diagnostic study of the investment climate. A US\$61 million MIGA guarantee facility for rehabilitation and modernization of a professional training institute was approved by the Board in May 2005. This project is MIGA's first in the education sector.

IMF—World Bank collaboration

5. Overall, the IMF and World Bank staff maintain a close collaborative relationship in supporting reforms to foster economic diversification and in coordinating their policy advice to the Gabonese authorities. In view of the structural measures envisaged under the medium-term program, successful implementation of the reform program hinges on complementary action by the World Bank, especially in the areas of business climate improvements, poverty

reduction policies, and nonrenewable resource management, as well as the identification and development of sources of growth in the non-oil sector.

Bank/Fund Collaboration

Area of Structural Reform	Lead Institution
Fiscal area	
Civil service reform	IMF
Expenditure monitoring and control	IMF
Priority Expenditure Tracking under PRSP	World Bank
Medium-term public expenditure review	World Bank
Tax administration	IMF
Governance	
Anticorruption law implementation	IMF
Code of ethics for government officials	IMF
Extractive Industries Transparency Initiative (EITI)	World Bank/IMF
Private sector development	
FIAS study of the business climate	World Bank/IFC
Diversification and non-oil sector development	World Bank
Other	
Price controls	IMF
Forestry and environment	World Bank
PRSP	World Bank/IMF
External trade	IMF
Transport	World Bank
Urban development	World Bank

IMF—World Bank collaboration in specific areas

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

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

putting together a monitoring and evaluation system for the poverty reduction strategy. A new Poverty Assessment would be undertaken for completion in FY09. This assessment will provide the basis for a more reliable analysis than was possible under the first Poverty Assessment. Together with the programs and sectoral strategies to be developed under the GPRSP, it will provide a stronger foundation for directing resources to poverty alleviation in the longer-term.

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

7. In June 2002 the Bank completed a US\$22.5 million ten-year project that aimed to improve the management and protection of Gabon's forestry and environmental resources. The project was to strengthen the planning and operational capacity of government institutions and local environmental nongovernmental organizations (NGOs). A new project in the same sector is being prepared for Board presentation in FY2006. This project builds on the lessons learned during the implementation of the previous project, focusing on transparency and law enforcement. It is suppose to help the Gabonese authorities design and implement governance reform programs and empowering local communities in managing their natural resources. The project outcomes are expected to be broaden to reaching a larger number of beneficiaries, attracting investments in the forestry, fishing and environment sectors, and thus assisting the government in its efforts to diversify the Gabonese economy and reduce its dependence on the oil sector.

8. A combined Public Expenditure Review/Country Financial Accountability Assessment/Country Procurement and Audit Review, is under preparation and is planned for completion in FY06. The aim of this activity is to improve public expenditure management and control systems, ensuring that allocated funds are used for the purposes they were intended and that they achieve the expected results.

9. The FIAS (a joint facility of the World Bank and International Finance Corporation) is providing advisory services to help improve the investment climate in Gabon. This technical assistance consists of three studies that would identify constraints to private investment, particularly foreign direct investment, and provide inputs to a governmental program of reforms aimed at alleviating impediments to private sector development. The diagnostic of the investment climate, including identification of priorities for reform and concrete recommendations, was presented in September. The second and third studies would consist of a more detailed review of administrative barriers to investment and an in-depth review of the tax and incentive regime with an objective of proposing additional and complementary concrete reforms. FIAS will confirm each study based on action on the previous one.

10. The Bank is also preparing an Infrastructure Framework Report (IFR), which will present a comprehensive overview of the country's general environment for private participation and the main opportunities for investment in infrastructure. The report will also outline recommendations and an action plan to assist the government in putting in place the

laws, policies, and institutions needed to create an enabling environment for enhanced private-sector participation. This study covers transport infrastructure (railways, air transport, and maritime transport), telecommunications, water, and power.

Areas of shared responsibility

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

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

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

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

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

Bank of Central African States: Safeguards Assessments

The Bank of the Central African States (BEAC) is the regional central bank of the Central African States, of which Gabon is a member. A subsequent safeguards assessment of the BEAC completed on August 30, 2004 found that the BEAC has implemented a number of measures to strengthen its safeguards framework since the 2001 safeguards assessment, but further progress needs to be made in key areas.

The main recommendations of the assessment were reported in (Country Report No. 05/3). Other priority recommendations of the assessment, but of a country specific nature, were: (i) the BEAC should clarify with its member countries that hold foreign reserves outside the BEAC the statutory basis and circumstances for doing so, to avoid an apparent conflict with the BEAC statutes and to ensure full transparency of reporting of reserves by the member country; (ii) the BEAC and its member states are encouraged to establish a mechanism to prevent IMF overdues and facilitate timely payments through advance acquisitions of SDRs and an authorization to debit the SDR account of the member; and (iii) the BEAC should cooperate with its members to reconcile and confirm the treasury balances to ensure that the balances reported by the BEAC in respect of credit to government as reflected in the accounts of the Treasuries are in agreement with the BEAC.

Gabon: Statistical Issues

1. Gabon's economic database is fairly comprehensive. While data are generally compiled in accordance with international standards, consistency between sectors is poor, raising questions about the quality of the data. Detailed economic and financial statistics, including long historical time series, are published in the *Tendances de l'Economie*, issued on a semiannual basis by the General Directorate of Statistics and Economic Studies (DGSEE) of the Ministry of Planning. More recent sectoral developments are described in detail in the *Tableau de Bord de l'Economie*, issued on a quarterly basis by the General Directorate for the Economy (DGE) of the Ministry of Economy, Finance, Budget, and Privatization.
2. Gabon is a participant in the General Data Dissemination System (GDDS). Metadata regarding Gabon's national statistical systems, including plans for improvement, were posted to the Fund's Dissemination Standards Bulletin Board on October 1, 2002, but have not been updated since then. The authorities do not report any real sector statistics for publication in *International Financial Statistics (IFS)*, nor fiscal data for publication in the *IFS* or *Government Finance Statistics (GFS) Yearbook*.

National accounts

3. The base for the calculation of national accounts aggregates at constant prices was changed from 1989 to 1991. Coverage of developments in oil and other key export sectors is based on a range of indicators that may not fully capture the profits generated by these sectors. Despite recent improvements in collecting and processing oil sector statistics, significant inconsistencies remain between national accounts and the balance of payments statistics. In addition, more frequent household surveys are required to improve the quality and quantity of data available on income distribution and consumption. Efforts to establish a more consistent database need to be strengthened.

Employment and unemployment

4. Data on unemployment and the total labor force are not systematically available.

Prices

5. Monthly consumer price indices for low- and middle-income households are available only for the capital city of Libreville. Significant parts of the population live in other urban areas such as Port Gentil. These indices are based on an outdated family expenditure survey from 1975 and attach a large weight to food and basic consumer goods prices.

Government accounts

6. A key shortcoming of macroeconomic statistics is the limited coverage of fiscal data, as no estimates of the consolidated general government are reported to STA. This hampers a full understanding of general government expenditure priorities. Moreover, the social security operations are not yet included in government finances. In addition, the audited accounts of oil sector operations are not published with adequate periodicity (at least quarterly), preventing adequate monitoring of key fiscal and activity indicators. Other needed improvements relate, inter alia, to the statistical treatment of oil companies' tax advances, recording in the budget accounts government investment financed by oil companies, and the recording of government domestic payment arrears.

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

Monetary statistics

8. Monthly monetary data for Gabon, as well as for the other members of the Central African Economic and Monetary Community (CEMAC), are reported on a regular basis, although with some delay. The data are reported in electronic form by the regional central bank (BEAC) and published in *IFS*. The institutional coverage of the monetary statistics is comprehensive, but accuracy is affected by cross-border movements of currency among CEMAC member countries. In the case of Gabon, however, the magnitude of imported notes is smaller than in other countries in the region. About 94 percent of notes in Gabon are nationally issued; the remaining are from Cameroon, the Republic of Congo, and Equatorial Guinea. Gabon exports about 18 percent of its notes, most of which go to Cameroon (12 percent) and to the Republic of Congo (4 percent).

9. The monetary and financial statistics mission that visited BEAC headquarters (May 2001) provided technical assistance in addressing the main shortcomings pertaining to coverage, methodology, compilation procedures, and timeliness of monetary statistics. The mission discussed an action plan for the implementation of the *Monetary and Financial Statistics Manual (MFSM)* and for the introduction of an area-wide page in *IFS* for CEMAC. Following the 2001 mission, a regional workshop on monetary and financial statistics was organized by the BEAC in Libreville (Gabon) in May 2002 to support the implementation of the *MFSM* in CEMAC countries. The new page for CEMAC was published in the January 2003 issue of *IFS*.

External public debt

10. There are comprehensive data on the outstanding stock of external public debt and its composition, together with detailed projections on debt service due. These data are provided (usually to Fund missions) by the General Directorate of Public Debt and Accounting

(Direction générale de la comptabilité publique) of the Ministry of Economy, Finance, Budget, and Privatization.

Balance of payments and trade statistics

11. Balance of payments data are disseminated with considerable delays, and the most recent data refer to 2001. As in most other countries of CEMAC, balance of payments data are compiled and disseminated by the national agency of BEAC for Gabon. The compilation process involves close cooperation between BEAC headquarters and the national agency for Gabon since BEAC headquarters calculates the national contribution in the international reserves it holds and manages on behalf of all six countries. The headquarters also validate the draft results and run consistency checks against the guidelines adopted for the whole monetary union.

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

External trade data are mostly based on estimates, which are not cross-checked with customs data. The reliability of other items of the current account is poor due to the low response rate to the enterprise surveys, in spite of partial correction through adjustments. Foreign direct investment in the financial account is likely to be underestimated owing to the insufficient detail of the oil sector survey. The overall magnitude and detailed breakdown of private capital flows, particularly those related to the short term, suffer from a lack of comprehensiveness.

GABON: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE
AS OF JUNE 14, 2005

	Date of latest observation	Date received	Frequency of Data ⁶	Frequency of Reporting ⁶	Frequency of publication ⁶
Exchange Rates	3/24/05	3/25/05	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	2/28/05	4/14/05	M	M	M
Reserve/Base Money	2/28/05	4/14/05	M	M	M
Broad Money	2/28/05	4/14/05	M	M	M
Central Bank Balance Sheet	2/28/05	4/14/05	M	M	M
Consolidated Balance Sheet of the Banking System	2/28/05	4/14/05	M	M	M
Interest Rates ²	12/31/04	2/16/05	M	M	M
Consumer Price Index	3/31/05	4/14/05	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴	2/28/05	4/14/05	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ³ – Central Government	2/28/05	4/14/05	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	2/28/05	4/14/05	M	M	M
External Current Account Balance	12/31/04	4/14/05	A	I	A
Exports and Imports of Goods and Services	12/31/04	4/14/05	M	M	I
GDP/GNP	12/31/04	4/14/05	A	I	A
Gross External Debt	12/31/04	4/14/05	M	M	A

¹Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

²Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³Foreign, domestic bank, and domestic nonbank financing.

⁴The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵Including currency and maturity composition.

⁶Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).

Statement by the IMF Staff Representative
July 8, 2005

1. Staff has been informed of a short delay in a payment by Gabon to the Arab Bank for Economic Development in Africa (BADEA). According to the authorities, instructions for a payment of USD 355,000 in principal and USD 49,208 in interest, due in May this year, were issued on time. But the transfer by Gabon's correspondent bank in New York was delayed for technical reasons relating to BADEA's domicile in Sudan. The authorities report that the payment was indeed effected.

2. This late payment gave rise to arrears under the performance criterion on the non-accumulation of external arrears under the Stand-By Arrangement for Gabon. Considering that the arrears have been cleared, the reasons for the delay, and the small amount involved, the staff recommends a waiver of the non-observance of the performance criterion.



Press Release No. 05/162
FOR IMMEDIATE RELEASE
July 12, 2005

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Fourth Review and Financing Assurances Review Under Gabon's Stand-By Arrangement

The Executive Board of the International Monetary Fund (IMF) has concluded the fourth review of Gabon's economic performance under a 14-month SDR 69.4 million (about US\$104.9 million) Stand-By Arrangement to support the country's economic program ([see Press Release No. 05/68](#)) and granted a waiver for non-observance of a performance criterion in connection with the delay of an external payment. The Board also approved a review of the country's financing assurances.

Total drawings under the Stand-By Arrangement have amounted to SDR 41.7 million (about US\$ 63.0 million). Completion of the fourth review makes available an amount equivalent to SDR 13.9 million (about US\$ 21.0 million). However, because of a strong balance of payments position, the authorities are now treating the arrangement as precautionary and a disbursement is not contemplated at this time.

Following the Executive Board's discussion on July 8, 2005 of Gabon's economic performance, Ms. Anne O. Krueger, First Deputy Managing Director and Acting Chair, stated:

“The Gabonese authorities are to be commended for the successful implementation of their economic reform program. Fiscal discipline resulting from improved tax collection and strict expenditure control have helped to restore macroeconomic stability. Moreover, important structural reforms were launched, which could form the basis for the economic diversification needed to ensure long-term sustainable growth.

“Looking ahead, significant challenges remain to reduce Gabon's dependence on oil, diversify the economy, and make decisive progress in poverty reduction. Continued fiscal discipline will be needed to address the medium-term decline in oil production, and will involve sustained efforts to bolster non-oil revenue and improve the efficiency of public spending. By using the bulk of windfall oil revenues in the coming years to reduce domestic and external debt Gabon has the opportunity to place its public finances on a permanently sounder footing. At the same time, continued macroeconomic discipline needs to be accompanied by reinvigorating the structural reform process to accelerate the diversification of Gabon's economy and boost growth and employment in the non-oil sector.

“The Poverty Reduction Strategy Paper currently under preparation is a key building block for a medium-term program aiming at reducing poverty and diversifying the Gabonese economy. Its sectoral strategies will need to be translated into concrete spending plans in the context of a well-prepared three-year public investment plan and reflected in the 2006 budget. The public expenditure reviews currently underway will assist in this effort.

“Strengthening governance and increasing transparency are key ingredients of a better investment climate. Progress has been achieved, notably the publication of the first report of the National Commission Against Illicit Enrichment, the establishment of the public tender office, the steps to increase transparency in the forestry sector, and Gabon’s adherence to the Extractive Industries Transparency Initiative (EITI). Looking ahead, the objective should be to reinforce the culture of good governance and transparency by ensuring the regular release of reliable information in the context of a sound institutional structure. The forthcoming assessment of fiscal transparency in Gabon will provide an important basis for strengthening budgetary institutions and practices.

“Against the background of the satisfactory completion of the Stand-By Arrangement, discussions will continue over the coming months on Gabon’s desire for a multi-year successor arrangement with the Fund,” Ms. Krueger said.

A Stand-By Arrangement is a decision of the IMF by which a member is assured that it will be able to make purchases (drawings) from the General Resources Account up to a specified amount and during a specified period of time, normally between 12 and 18 months, provided that the member observes the terms of the arrangement.

**Statement by Damian Ondo Mañe, Executive Director for Gabon
July 8, 2005**

We welcome this fourth and final review under the SBA as it provides an opportunity to assess Gabon's adjustment efforts. Indeed, it is worth recalling that in the past, Gabon's performance under Fund-supported programs had been mixed with arrangements never reaching their terms, in account of slippages on the fiscal front and delays in the reform agenda. However, the beginning of the decline in oil production, in a context of high debt service burden and deteriorating social indicators, make the Gabonese authorities at the highest levels fully aware of the need to change policy stance. Accordingly, since mid-2002, the government has committed itself to undertaking major reforms and to implementing policies aimed at strengthening public finance management and promoting non-oil sector.

As a first step, and with staff's assistance, my authorities took measures to address the main causes of the slippages of the past. They adopted an austerity budget for 2003 and in order to establish a track record, budgetary targets were set and observed for the first part of 2003. These included the repayment of all external debt-service arrears to multilateral institutions, as well as arrears to post-cut off date debt and debt service under the 2000 Paris Club rescheduling for debt owed to bilateral creditors.

The authorities' efforts were further strengthened in mid-2003 in the context of a Staff Monitored Program, which satisfactory implementation demonstrated continued determination of my authorities to strengthen budgetary management and restructure the economy, and to make it less oil-dependent.

The Gabonese authorities' ownership of their adjustment program was further confirmed with the satisfactory implementation of the current SBA. Its conclusion at the end of this month will mark a 3-year period of unprecedented record of reforms in the country.

On behalf of my authorities, I would like to express my appreciation to Management and staff for their continuous advice and support. My authorities highly appreciate the cordial atmosphere in which the discussions have taken place during the current arrangement. The paper before us describes well the substantial achievements over the past three years as well as the policy challenges the country faces over the medium-term.

Recent Economic Developments and Performance under SBA

As indicated in my previous statement on Gabon last March, economic performance in 2004 has been consistent with the projections thanks to strong policy implementation, firmness of oil prices and increased production in the manganese sector. Real GDP is estimated to have grown by 1½ percent, as oil output was slightly higher than in 2003. Non-oil GDP growth is estimated to have reached 2¼ percent, mostly driven by strong public demand. Inflation remained subdued, below target at ½ percent.

The high level of oil prices in 2004 and improved expenditure management throughout the year enabled the fiscal sector to record a surplus. Oil revenue windfalls in 2004 were used to eliminate external payment arrears, further reduce domestic arrears, trim down overall debt, and increase deposits in the Fund for Future Generations. Expenditures, and particularly the wage bill, have been contained within limits. As a result, non oil primary deficit decreased from 8.2 percent to 7.7 percent of non-oil GDP. In the external sector, the current account surplus remained strong at 10½ percent in 2004. As envisaged, external debt declined from 56 percent of GDP at end-2003 to 50 percent at end-2004 and, should the oil prices remain firm, it is expected to decline further by end-2005 to 42 percent GDP. Following the Paris Club agreement in June 2004, most of the bilateral debt negotiations have been completed. Discussions are still ongoing with non-Paris Club creditors and an agreement with the London Club is expected to be signed during the course of this year.

Preliminary information indicates a strengthening of economic activity across sectors in the first quarter of 2005. Non-oil fiscal performance therefore was higher than projected while expenditures remained under control. As a result, the non-oil primary balance was higher than expected. However, although oil production remained stable, oil revenues were lower than expected due to widening price discounts for Gabon's oil relative to the Brent. This oil revenue trend may persist, should large discounts remain throughout the year. Nevertheless the performance criterion on the fiscal primary balance at end-March 2005 was met. And so were the other quantitative performance criteria at end-March 2005.

On the structural front, new developments occurred as regards the airline company Air Gabon. Despite several restructuring attempts, the financial situation of the company failed to improve and even deteriorated lately. In light of this situation, the Gabonese government took the difficult decision to liquidate the company despite strong social pressures to keep the company in the public enterprise sector, in part because the transportation structure has long lied essentially on air transportation. They decided to create a new airline company with a majority private sector participation, which would be managed on a commercial basis. There have been several expressions of interest by potential buyers and my authorities expect to choose the strategic partner by end-July 2005. Given the strategic importance of the sector, the government intends to maintain a minority stake in the new company while ensuring the end of drain by the sector on public resources and providing better services to the population.

With a satisfactory performance under the SBA in the first quarter of 2005, my authorities are requesting the completion of the fourth review under the SBA. In addition, in view of the authorities' good faith efforts and substantial progress made in negotiating with non-Paris Club and London creditors, my authorities request also the completion of the financing assurances review.

Policies for the Remainder of 2005 and the Medium Term

With the economic recovery in many non oil sectors such as mining, forestry, construction and agro-industry, the continued firmness in oil prices and the stabilization of the oil production, the economic outlook for 2005 remains positive. In particular the non-oil sector is expected to grow further by 3 percent in real terms in 2005, boosted by strong external

demand of manganese and timber and the revival of domestic demand. The current account surplus should increase by 2 percentage points, contributing to further accumulation of reserves. While inflation is expected to increase, it should not exceed 1 percent. As no financing needs is foreseen, my authorities will continue to treat this arrangement as precautionary.

My authorities, as indicated in their letter of intent, aim to maintain the thrust of present policies for the remainder of the year. They are committed to continue their adjustment efforts with the strengthening of public finance management and the finalization of the remaining structural reforms.

Fiscal policy for the remainder of the year will be consistent with the 2005 budget law. More specifically, non-oil revenue in 2005 is expected to increase by 1 percentage point of non-oil GDP. On the expenditure side, measures will be implemented to ensure that the wage bill remains within budget. However, the budget will have to accommodate the spending related to the liquidation of Air Gabon. To this end, my authorities intend to adopt during this quarter a supplementary budget that will also incorporate some poverty reduction-related expenditures that may be needed once the PRSP is finalized in August 2005. As a result, the non-oil primary deficit in 2005 is expected to fall at a slower pace than originally envisaged, by only 1 percentage point of non-oil GDP. It is my authorities' intention to maintain the same pace of fiscal adjustment over the medium-term. To this end, they will: (i) continue efforts to raise non-oil revenue, which are expected to be boosted with the operationalization of Large Tax Payer Unit in 2006, and (ii) continue to streamline expenditures, particularly on the wage bill. As all domestic arrears were eliminated and all external arrears cleared in accordance with the 2004 Paris Club agreement, my authorities intend to save future oil revenue windfalls after provisions for investment and social spending consistent with the PRSP.

In **preparation of the 2006 budget law**, my authorities envisage to improve the coordination between the current and the investments budgets by reintroducing joint budgetary conferences and harmonizing the technical preparation of the budgets between the Ministry of Finance and the Ministry of Planning. They also intend to make the 3-year Public Investment Program (PIP), a more binding framework for public investment spending. Finally, they aim to finalize promptly the work on the functional budget classification. My authorities welcome and view the ongoing work on a Public Expenditure Review as critical in addressing these issues.

As regards **transparency of the public investment spending**, it is expected that the audit of expenditures for the independence celebrations and that of the arrears of the Road Maintenance Fund (FER) will be completed by end-August and end-July respectively. In addition, the government intends to continue the full enforcement of the provisions of the public procurement code, in particular to the expenditures related to the new FER.

As regard the **reform agenda**, I would like to recall that the design of the current SBA provided for a frontloading of structural measures, with most of them having been implemented, either as scheduled or sometimes with some delay. Nevertheless there are still

structural reforms that are taking longer time to complete than expected. My authorities are working on completing these reforms, which in some instances require greater political and public consensus.

In particular, the government remains committed to the completion of the *privatization* process of Gabon Telecom (GT) and Air Gabon. With the ongoing measures to eliminate the remaining uncertainties and streamline the company's balance sheet, the divestment from a majority stake of GT is now expected for end-September 2005.

As a follow-up to the workshop on the impediments to the *private sector development*, the government is finalizing a program that aims to improve the investment climate through notably: (i) the reduction of factor costs; (ii) the simplification of administrative procedures and the improvement of the environment for foreign investors; and (iii) the finalization of the new tax code and the effective elimination of quasi fiscal taxes. Given the importance of access to credit for the private sector development, my authorities intend to address this issue by first aligning the tax treatment of banks' provisions with the norms of the COBAC across the CEMAC zone and then by further harmonizing regulatory and legal frameworks.

In the *forestry sector*, the ongoing work on the new role of the *Société Nationale des Bois du Gabon* (SNBG) should be completed before the lifting of its monopoly is effective January 1, 2006. As regards transparency in the sector, my authorities intend to seize, beginning August 2005, the forest permits held by individuals and corporations that fail to clear their forestry-related tax arrears or adopt a well-defined repayment schedule.

On governance and transparency in the oil sector, progress is being made towards meeting the requirements of full adherence to the EITI. An international bid for the selection of an international audit firm has been launched and expressions of interest have to be submitted by July 15, 2005. The stakeholder group comprising the government, the oil companies, and civil society is being created and its first meeting is scheduled for end-July 2005. On this occasion, the government will present an action plan aimed at meeting the EITI principles by September 2005. It will also select the firm to conduct the audit of the first reconciliation. As indicated in previous statements, it is expected that this audit be carried out and published by end-September 2005. In order to complete all these reforms regarding governance and transparency in natural resource sector, technical assistance will be needed.

Work on the **PRSP** is on track. The data collection phase of the quick poverty survey ended last week. The ongoing treatment and the analysis of the data are expected to be completed by the end of this month. Consultations with civil society and the private sector are also underway. The government intends to use this work, together with the public expenditure review scheduled for June-July, to prioritize the three-year PIP and harmonize it with the 2006 budget.

Successor Arrangement

Since mid-2002, my authorities have embarked on an ambitious adjustment program, with the goal to address these challenges. The measures undertaken have focused on strengthening

budgetary management, reforming tax and customs administrations, improving the functioning of the Budget and Treasury Departments, speeding up the privatization process, strengthening governance and transparency in various areas, creating an environment conducive to private sector development, and developing a poverty reduction strategy. Among other major achievements, we note the restoration of fiscal discipline, the establishment of the National Commission against Illicit Enrichment (CNLEI), the adoption of an ethics code for civil servants, the creation of a Directorate General of Procurement and the sale of state-owned agribusinesses.

As I noted in my previous statements, my authorities are fully aware that the positive developments in the oil sector, although contributing to the stabilization of the oil revenues and improving some economic indicators, are temporary and therefore should not mask the nature of challenges yet to tackle, namely the need to reduce oil dependency through notably economic diversification, and that to improve social indicators.

With the completion of the present review, Gabon will have achieved a satisfactory performance throughout the arrangement period, thus consolidating its commitment to sound macroeconomic and structural policies. My authorities are of the view that this performance has helped to set the foundations and the needed track record for a multi-year arrangement, which is best suited to support the country's far-reaching structural reforms and the implementation of its poverty reduction strategy over the medium term. Such an arrangement will provide an important signal to donors and international community on the extent to which Gabon has changed its economic management.

Furthermore, although the DSA shows that there are no financing needs until 2014 and hence no need for further debt rescheduling, the risk of oil prices declining below 35 dollars can not be underestimated. Accordingly, my authorities are still of the view that despite its apparent sustainability, the high debt service remains an impediment to a faster implementation of their development strategy. They are looking forward to an arrangement that can help Gabon benefit from a debt relief that will free more resources for their economic program and enable the country to achieve fiscal sustainability.

Therefore, they are requesting that formal discussions on such an arrangement start as soon as possible. I ask Directors for their support to my Gabonese authorities' request.