May 2007
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Gabon: Request for Stand-By Arrangement—Staff Report; Staff Statement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Gabon

In the context of the request for a Stand-By Arrangement, the following documents have been released and are included in this package:

- the staff report for the Request for Stand-By Arrangement, prepared by a staff team of the IMF, following discussions that ended on March 11, 2007, 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 April 18, 2007. 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 May 7, 2007 updating information on recent developments;

- a Press Release summarizing the views of the Executive Board as expressed during its May 7, 2007 discussion of the staff report that completed the request; and

- a statement by the Executive Director for Gabon.

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

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

*Also be included in Staff Report

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

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

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INTERNATIONAL MONETARY FUND

GABON

Request for a Stand-By Arrangement

Prepared by the African Department
(in consultation with other departments)

Approved by David Nellor and Adrienne Cheasty

April 18, 2007

Discussions took place February 25–March 11, 2007 in Libreville. The team met with Prime Minister Jean Eyéghé Ndong, Finance Minister Paul Toungui, Minister of Oil and Mining Richard Onouviet, BEAC National Director Philibert Anzembé, and other senior officials.

Team members included Roger Nord (head), Valeria Fichera, Jan-Peter Olters (all AFR), Daniel Leigh (FAD), and Aurélie Martin (PDR). Thierry Nguema-Affane (OED) attended most of the meetings. Richard Randriamaholy (resident representative) assisted the mission.

Outreach conducted by the mission included meetings with the President of the Senate and selected senators; with the President of the Economic and Social Council and selected representatives of civil society; with the Chairman of the largest private business association and selected representatives of the private sector; and with the local diplomatic and donor community. The mission issued a press statement at the end of its visit.

Relations with the Fund: At end-February 2007, Gabon's outstanding Fund credit was SDR 37.8 million (24.5 percent of quota). The 2006 Article IV consultation was concluded on June 5, 2006, and its reports were published. Gabon has accepted the obligations of Article VIII, Sections 2, 3, and 4 of the Articles of Agreement and maintains an exchange system free of restrictions. Gabon participates in the GDDS.

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EXECUTIVE SUMMARY

Gabon requests a three-year Stand-By Arrangement in support of its economic program. The arrangement provides access at 50 percent of quota. Given its strong balance of payments position, it intends to treat the arrangement as precautionary. Gabon is ineligible for support under the Policy Support Instrument, which is limited to PRGF-eligible countries.

The current supportive global environment represents an opportunity for Gabon to make a decisive break from the past. The past three decades have been characterized by repeated boom-bust cycles and the accumulation of unsustainable debt. Since 2003, supported by a Stand-By Arrangement during 2004–05, the authorities have made progress in reducing macroeconomic imbalances and initiating comprehensive structural reforms. More recently, high oil prices have buoyed government revenue and allowed a welcome reduction in public debt levels. The non-oil economy is showing robust growth. However, rising public spending in two successive election years has put pressure on the non-oil fiscal balance. Inflation has also risen, albeit from very low levels.

The critical objectives of the government's program are to prepare the economy for the post-oil era and to make decisive progress in poverty reduction. To that end, the proposed program will rest on three pillars:

- **making significant progress toward a permanently-sustainable fiscal position**, with the aim of avoiding harmful, oil revenue-related boom-bust cycles and preparing for the eventual exhaustion of oil reserves;

- **strengthening oil revenue administration and public financial management,** with the objective of raising the quality and effectiveness of public spending to ensure a higher return on physical infrastructure investment and improve social services;

- **removing structural obstacles to private sector-led non-oil growth,** by improving the business climate, including through enhanced governance and transparency.

The government's program, if implemented, would ensure significant progress toward these objectives. It aims for significant, front-loaded fiscal adjustment, which is needed to put public finances on a more sustainable footing. At the same time, it encompasses a comprehensive strategy to strengthen public financial management, which is critical both to guard against the risk of renewed fiscal slippage and to raise the quality and effectiveness of public spending. And finally, it incorporates an agenda for private sector development, which is essential for long-term, sustainable growth. The program is not without risks. Notably, buoyant oil revenue and urgent needs across the economy mean that pressures on public spending will be significant. However, strong prior actions provide some assurance that public finances are under more effective control.

The staff recommends approval of the authorities' request for a three-year Stand-By Arrangement.

I. INTRODUCTION

1. **After rapid economic growth in the 1960s and 1970s, Gabon faced significant economic challenges during the past three decades.** Despite its rich endowment in natural resources, Gabon's economic performance was characterized by oil booms and political cycles, resulting in a ratcheting up of public expenditure, followed by painful adjustment periods when oil prices fell. The rapid accumulation of public debt and poor public expenditure management led to the repeated accumulation of arrears, both domestic and foreign, resulting in repeated debt rescheduling. Performance under successive Fund-supported arrangements was mixed.[1]

2. **Against the background of declining oil production from its peak in 1997, the authorities embarked on a comprehensive economic reform program in 2003.** Supported by a staff-monitored program followed by a 14-month stand-by arrangement in 2004–05, the authorities restored macroeconomic stability, eliminated all external payments arrears, and introduced far-reaching structural reforms to foster non-oil growth. Boosted by buoyant oil revenue, as production stabilized and prices rose sharply, the overall fiscal surplus and current account surplus of the balance of payments increased. But at the same time, expenditure restraint contributed to a significant improvement in the non-oil balance, and the non-oil primary deficit fell to 9 percent of non-oil GDP by 2004, compared with close to 17 percent in 2001–02.

3. **However, with oil prices setting new records and a heavy political calendar in 2005-06, structural reforms stalled and fiscal discipline proved difficult to sustain.** The non-oil primary deficit widened to 17½ of non-oil GDP in 2005 and an estimated 18 percent in 2006, well above the government's budgetary targets. Slippages were concentrated on the expenditure side, notably in transfers and subsidies, including rapidly rising fuel price subsidies (Box 1). Newly-available foreign financing also contributed to a sharp increase in public investment, with a heavy emphasis on infrastructure. Price pressures related to excess spending have so far been manageable as buoyant oil revenue continued to generate large overall fiscal surpluses and declining debt levels. But further fiscal slippages could raise serious medium-term sustainability concerns—including for competitiveness—in view of the expected depletion of Gabon's oil reserves over the next 25-30 years.

4. **With the objective of reinvigorating structural reforms and reestablishing fiscal discipline, the government has formulated a comprehensive medium-term economic program.** The key objective of the program is to seize the opportunity offered by high oil prices to place public finances on a sustainable footing, while strengthening the performance of the Gabonese economy, reducing poverty and preparing for the post-oil era. In support of this program, and taking into account the continued vulnerability of the economy to swings

[1] See *Gabon—2005 Article IV Consultation*, Box 1, for a summary of policy implementation under Fund-supported programs (Country Report 05/159).

in oil prices, the authorities are seeking Fund support through a three-year Stand-By Arrangement, providing access of 50 percent of quota.[2] In view of the strong balance of payments position at present, the authorities expect to treat the arrangement as precautionary.

Box 1: The Fuel Price Subsidy Reform

In early 2007, the authorities decided to sharply reduce fuel price subsidies by increasing retail prices for diesel and super gasoline by an average of 26 percent. This move followed the elimination of the jet kerosene subsidy in August 2006. The authorities publicly explained the price increase, citing the high cost of the subsidies and evidence that they primarily benefit the rich. They also announced a list of compensatory measures targeted at lower-income households to mitigate the social impact of the fuel price increases.

At the core of the fuel price subsidies in Gabon are the ex-refinery prices of 7 petroleum products that were frozen in August 2002. The sole supplier of these products to the domestic market is the majority-privately-owned refinery SOGARA. The refinery purchases the crude required for its operations at a price that has increased with international prices since 2002. But because domestic fuel prices are frozen, the refinery sustains a loss when it sells the refined products. To quantify the loss, i.e. the value of the fuel price subsidy due to the price freeze, a reference import parity price (IPP) is computed every month by SOGARA based on international market prices, local taxes, costs, and margins. The difference between the IPP and the frozen ex-refinery price multiplied by the quantity sold is the monthly loss to the refinery for which the government compensates it fully. Payment is made either in the form of crude oil delivered free of charge to SOGARA or in cash. The subsidies were explicitly recorded in the budget for the first time in 2006.

The total fiscal cost of the subsidies implied by the ex-refinery price freeze is estimated at 4.2 percent of non-oil GDP (NOGDP) in 2006 and benefited mainly more wealthy households. A Poverty and Social Impact Analysis (PSIA) evaluated the distribution of the fuel subsidies using the 2005 Gabon *EGEP* household dataset, and found that the top 10 percent of households received about one-third of the total subsidy. Meanwhile, the bottom 30 percent of households were estimated to receive only 13 percent of the subsidy, highlighting that fuel price subsidies are a very costly way to protect the real incomes of the poor.

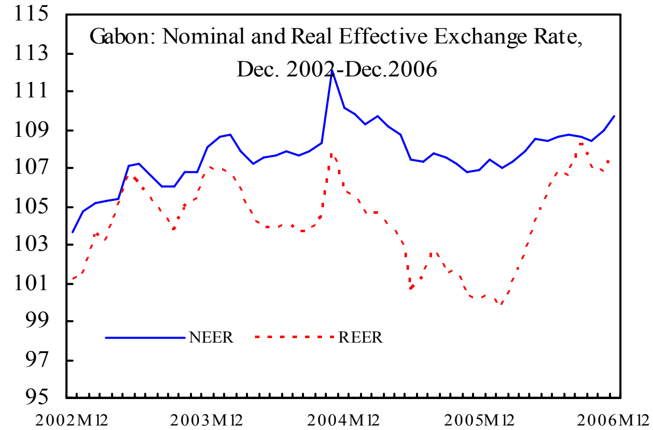
On March 3, retail prices of diesel and super gasoline were increased by 27 and 25 percent, respectively. The authorities also intend to re-activate the mechanism for setting ex-refinery prices in April to ensure that any future increases in international fuel prices would fully pass through into retail prices. As a result of the domestic price increase, and lower international fuel prices, staff project that subsidies will decline by 2.9 percentage points of NOGDP in 2007 to 1.3 percent of NOGDP, with about one-third of the reduction coming from lower international prices

The authorities announced a list of compensatory measures targeted at lower-income households to mitigate the social impact of the fuel price increases. The measures amount to 0.7 percent of NOGDP and include the targeted provision of free electricity and water; waivers of school enrollment fees; strengthening public transportation in Libreville; and accelerating investment projects with a high social rate of return (see MEFP paragraph 11 for more detail).

[2] Gabon is not eligible for support under the Policy Support Instrument because it is not PRGF-eligible.

II. The Current Setting

5. **Economic activity strengthened further in 2006, but some inflationary pressures have emerged.** Although oil production fell, largely for temporary technical reasons, non-oil growth rose from 4¼ percent in 2005 to an estimated 5 percent in 2006, mainly reflecting brisk activity in services and construction. After two years of virtual price stability, consumer prices picked up in the second half of 2006 and average inflation reached 4 percent, partly reflecting the cumulated fiscal stimuli of 2005 and 2006 and spikes in the prices of some food items.[3] Following a year of sharp depreciation, the real effective exchange rate appreciated by 7½ percent in 2006, reflecting mainly higher inflation than in partner countries. However, the binding constraints to higher factor productivity and competitiveness in Gabon's non-oil sector remain mostly structural rather than price-related.



6. **Buoyant oil revenue continued to generate large fiscal surpluses in 2006, but spending overruns put pressure on the non-oil balance.** The overall fiscal surplus is estimated to have reached 9¼ percent of GDP in 2006, contributing to an external current account surplus of 18½ percent of GDP. As a result, external public debt fell from 39 percent of GDP in 2005 to 32½ percent in 2006 and domestic debt was also reduced.[4] However, the non-oil primary deficit (NOPD) rose slightly to 18 percent of non-oil GDP (13¾ percent excluding fuel price subsidies), about 5 percentage points above the 2006 supplementary budget target.[5] Slippages were concentrated in current expenditure, including the discretionary security and sovereignty spending and the wage bill, the latter reflecting increases in the minimum wage, the retirement age, and salaries in the military.

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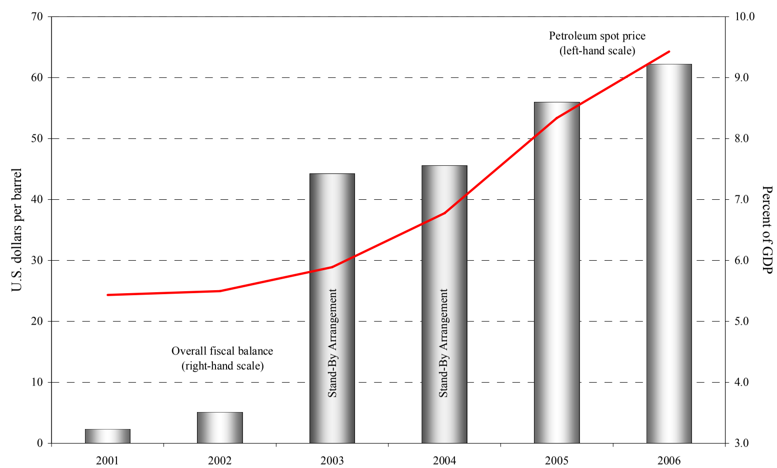
[3] However, the CPI weights reflect consumption patterns from 1975 and the index does not capture most of the service sector. A new index based on the 2005 household expenditure survey is scheduled to be introduced shortly.

[4] The stock of domestic debt initially increased, as domestic arrears were converted to debt under successive "Libreville Club" agreements. At the same time, other domestic debt, notably the overdraft with the BEAC, was reduced sharply. At end-2006, the identified stock of domestic debt stood at 11½ percent of GDP, compared with 18 percent at end-2005.

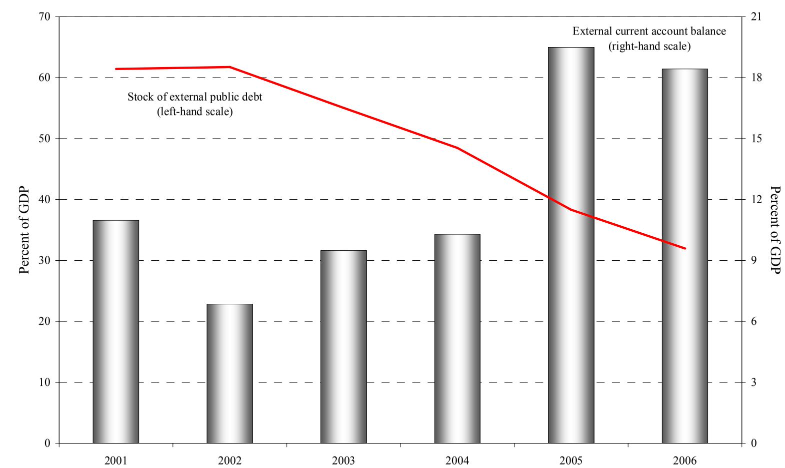
[5] Fuel price subsidies have been fully reflected in the government budget since mid-2006. The NOPD excludes restructuring costs of public enterprise being privatized or liquidated.

Figure 1. Gabon: Recent Economic Developments, 2001–06

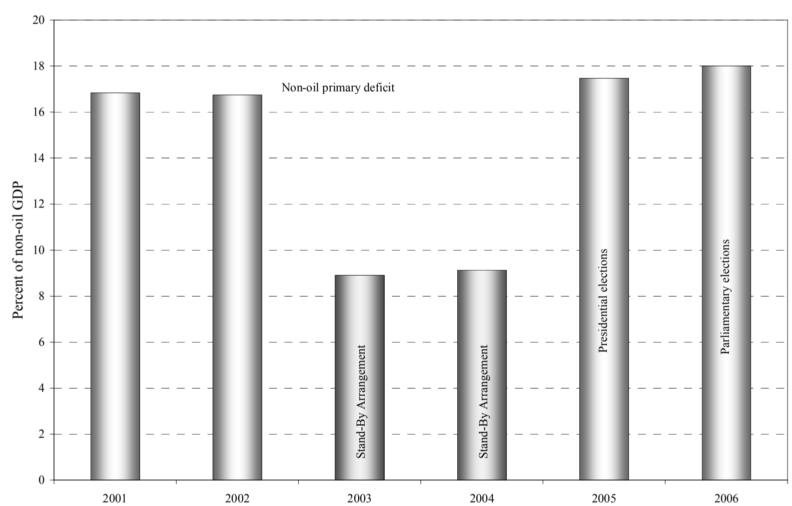
The current oil boom has led to large fiscal surpluses, ...



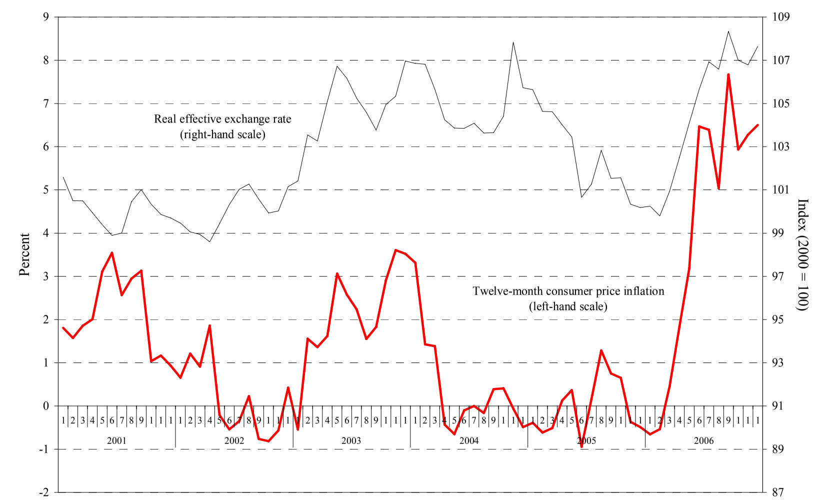
..., large current account surpluses, and declining external vulnerability.



However, increasing spending pressures led to a deteriorating non-oil primary balance, ...



..., accompanied by rising inflation and an appreciating REER.



Source: Gabonese authorities and IMF staff estimates.

7. **Foreign-financed investment spending has increased sharply.** Following the expiration of the 2004–05 Stand-By Arrangement and the normalization of relations with creditors, Gabon contracted new foreign debt, largely on commercial terms, to finance a variety of projects, primarily for roads, hospitals, and defense purposes. Total debt contracted in 2005–06 reached CFAF 275 billion, about 5½ percent of 2006 GDP; corresponding annual spending has been limited to about 1 percent of GDP.

8. **The outlook for 2007 is for continued robust growth.** The oil sector is expected to regain normal production levels and non-oil GDP growth is projected to accelerate to 5¾ percent, reflecting a broad-based economic recovery with strong contributions from services and construction. As a result, total GDP growth should reach 5½ percent, its highest level in 10 years. Average inflation is expected to increase, reflecting both continued abundant liquidity and the one-time effect of higher retail fuel prices. Economic growth should moderate during 2008–10, partly as oil production resumes its long-term downward trend, while price pressures are expected to subside as a result of a tightening of fiscal policy.[6]

Gabon Macroeconomic Framework, 2005-11

	2005	2006	2007	2008	2009	2010	2011
	Prel.	Est.	Projections				
			(Annual percentage change)				
GDP at constant prices	3.0	1.2	5.6	4.2	4.3	3.5	2.8
Oil	-0.4	-8.9	5.3	2.9	3.1	-0.5	-3.8
Non-oil	4.3	4.9	5.7	4.7	4.7	4.7	4.8
GDP at current prices	20.5	9.2	2.3	9.0	5.3	2.9	1.3
CPI (yearly average)	0.0	4.0	5.5	3.0	2.5	2.0	2.0
			(Percent of GDP)				
Overall fiscal balance (payment order basis)	8.6	9.2	10.1	11.5	11.6	11.6	11.0
External current account balance	19.5	18.4	16.9	16.7	14.7	12.8	8.9
External public debt	39.1	32.5	27.6	21.3	16.2	13.3	10.4
			(Percent of non-oil GDP)				
Non-oil revenue	23.9	23.5	24.2	23.7	23.9	24.2	24.1
Primary non-oil balance	-17.5	-18.0	-11.6	-10.0	-8.8	-7.4	-6.0

[6] The framework does not take into account the macroeconomic impact of the Belinga iron-ore project for which the government has recently signed a framework agreement with China. Staff will evaluate the macroeconomic impact of the project when the financial and operational plans are finalized.

9. **Public debt is expected to be sustainable over the medium term, barring a major decline in oil prices.** The public external debt-to-GDP ratio dropped from about 50 percent in 2004 to 32½ percent at end 2006. Over the same period, domestic debt declined from 27 to 11½ of GDP, reflecting significant repayments by the government of long-standing domestic liabilities. Standard debt sustainability analysis, based on WEO oil price assumptions, shows a baseline scenario with further declines in debt-to-GDP ratios and a sustainable debt burden over the medium term (Appendix II). Stress tests indicate that this outcome is fairly robust to standard shocks. However, Gabon remains vulnerable to sharp swings in oil prices, especially in the next few years when debt service will be heavy. For example, should oil prices fall below US$40 per barrel on average (38 percent below the baseline assumption), financing gaps would open up, requiring sharper fiscal adjustment[7].

Gabon: External Debt
(Billions of CFA francs)

	2005	2006	2007	2008	2009	2010
TOTAL DEBT	1,789	1,623	1,411	1,186	947	799
In percent of GDP	39.1	32.5	27.6	21.3	16.2	13.3
Multilateral	224	203	162	133	122	119
Of which IMF	38	28	12	0	0	0
Bilateral	1,541	1,407	1,247	1,052	825	680
Paris Club	1,506	1,366	1,207	1,012	784	638
Paris Club pre-cutoff	1,386	1,241	1,084	894	685	560
Paris Club post-cutoff	120	125	123	118	99	78
Other Bilateral	35	41	39	40	41	42
Debt Diverse	11	6	0	0	0	0
London Club	12	7	2	0	0	0

Sources: Gabonese authorities and Funds staff estimates and projections.

III. THE 2007-08 PROGRAM

10. **The critical objectives of the government's program are to prepare the economy for the post-oil era and to make decisive progress in poverty reduction.** To that end, the proposed program will rest on three pillars:

- **making significant progress toward a permanently-sustainable fiscal position**, with the aim of avoiding harmful boom-bust oil-revenue related cycles and preparing for the eventual exhaustion of oil reserves;
- **strengthening oil revenue administration and public financial management,** with the objective of encompassing all oil revenue and government spending in the budget, and raising the quality and effectiveness of public spending to ensure a higher return on physical infrastructure investment and improve social services;
- **removing structural obstacles to private sector-led non-oil growth,** by improving the business climate, including through enhanced governance and transparency.

[7] Under the program, a decline in oil prices of more than 30 percent with respect to the WEO baseline would trigger a consultation with staff.

Fiscal adjustment: Placing public finances on a sustainable footing

11. **Pro-cyclical fiscal policies have been a key driver of macroeconomic vulnerability in the past.** Fiscal expansions during oil booms have been followed by periods of painful adjustment when oil prices and government revenues fell. Against the background of the projected exhaustion of Gabon's oil reserves over the next 30 years, and to reduce the vulnerability of the economy to oil price volatility, the authorities intend to implement a five-year fiscal adjustment strategy to place public finances on a long-term sustainable footing. The objective is to reduce the non-oil primary deficit (NOPD) to about 6 percent of non-oil GDP by 2011, a level that is estimated could be sustained even after oil reserves are depleted (Box 2).

12. **To that end, the authorities will reduce the non-oil primary deficit sharply in 2007, taking a significant step toward a permanently-sustainable fiscal position** (MEFP paragraphs 8-11)**.** In a supplementary budget to be submitted to Parliament before end-June, the authorities intend to present a revised fiscal framework consistent with a reduction in the NOPD from 18 percent of non-oil GDP in 2006 to 11½ percent in 2007. The bulk of the adjustment will fall on the expenditure side. Notably, fuel price subsidies are set to be reduced by 3 percentage points of non-oil GDP and security and sovereignty spending, which rose sharply in 2005-06, will be reduced by 1½ percentage points. Revenue will be helped by fast-growing imports and improved customs and tax administration, and will be temporarily buoyed by a one-time collection of VAT arrears from Gabon Télécom in the context of its privatization.

13. **Strengthening debt and asset management is critical to achieve long-term fiscal sustainability** (MEFP paragraph 12). The authorities have initiated discussions with their external creditors regarding a debt pre-payment deal and have substantially reduced the outstanding stock of domestic liabilities. Early repayment of the most expensive debt would strengthen Gabon's external and fiscal position by reducing annual interest payments and lowering the vulnerability to future shocks.

Public financial management reforms: Raising the quality and effectiveness of public spending

14. **Poor public financial management has been at the root of past disappointing results.** Public expenditure, both for physical infrastructure and for social services in health and education, has not yielded the expected returns. Recent diagnostic reports by the Fund and the World Bank have identified key problems in budget preparation and presentation, budget execution and monitoring, and oil revenue administration.[8] The authorities have prepared a comprehensive strategy to address these problems.

[8] See *Gabon – Report on the Observance of Standards and Codes – Fiscal Transparency Module* (Country Report No. 06/388).

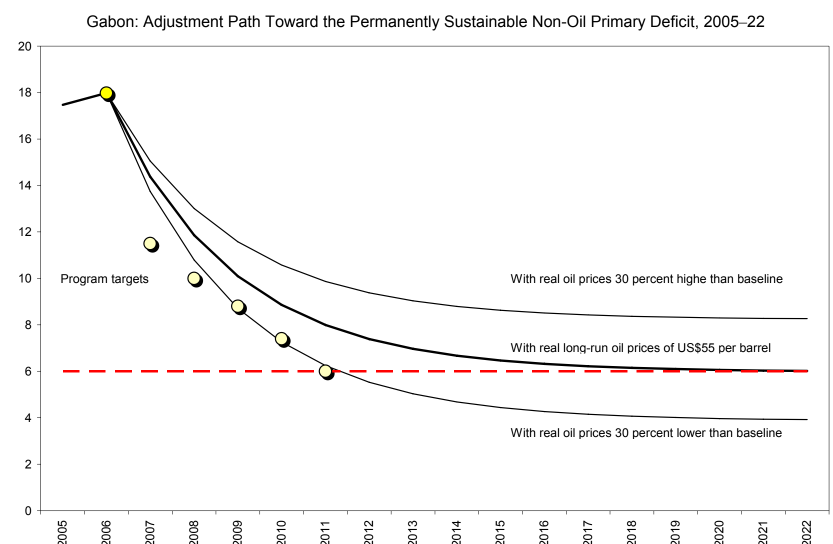
Box 2. The Permanently Sustainable Non-Oil Primary Deficit

Given the exhaustible nature of oil reserves, the large dependency on oil revenues, and the volatility of oil prices, oil-producing countries require a forward-looking fiscal framework. Policymakers thus need to determine an appropriate mix of spending— including investing in physical and human capital— and financial savings. Different social preferences can yield different results, all of which may be consistent with long-term fiscal sustainability.

One approach is to choose a fiscal strategy that aims at preserving the sum of oil reserves and financial assets (see, e.g., the May 2007 *Regional Economic Outlook* for sub-Saharan Africa). Derived from Friedman's (1957) permanent-income hypothesis (PIH), such a policy would set public spending equal to a constant path defined in terms of the expected annuity value of oil wealth and non-oil revenue (the government's "permanent income"). Governments invest a certain fraction of their oil revenues in alternative forms of wealth (in this case, financial). These assets generate a rate of return from which governments can finance a primary deficit indefinitely when oil reserves are depleted.

For Gabon, simulations reveal that the current fiscal policy stance is not sustainable (for the underlying methodology, see WP/06/193)**.** On the basis of proven oil reserves of about 2 billion barrels, a real long-term oil price of about US$55 per barrel, and a real rate of return on financial assets of 3.2 percent, the permanently sustainable non-oil primary deficit (PS-NOPD) is estimated at 6 percent of non-oil GDP—well below the realized levels of 17.5 percent of non-oil GDP in 2005 and 18 percent in 2006 (see graph).

Given the uncertainty regarding future economic conditions, precautionary motives justify front-loading the fiscal adjustment. While there are upside risks to the estimated PS-NOPD— notably those to large unproven but probable oil and gas reserves that could double the country's hydrocarbon potential—there are also a number of downside risks. For example, a decline in real oil prices by 30 percent (to about US$39 per barrel related) would reduce the permanently sustainable primary deficit to 3.9 percent of non-oil GDP. The estimated PS-NOPD also hinges critically on the real rate of return on government financial assets, which is assumed to be 3.2 percent—a fair rate of return for diversified, long-term, low-risk portfolios. However, to realize this rate of return would require institutional reforms within the CEMAC zone, as the current rate of return on Gabon's *Fonds pour les générations futures* is only 3.15 percent in *nominal* terms (implying that the real rate of return was negative in 2006).



15. **The budget preparation process will be strengthened** (MEFP paragraphs 14–15)**.** Building on ongoing work, the authorities intend to introduce a three-year medium-term expenditure framework (MTEF) by the end of 2007. Drawing on sectoral priorities, the METF will ensure a more accurate evaluation of recurrent costs related to investment expenditure and improve the expenditure prioritization process. Moreover, transparency and presentation of the budget will be enhanced by providing more information on past budgetary performance, including tax expenditures, in the annual budget documentation that goes to Parliament. Work is also proceeding on compiling a functional classification of expenditure, which should be available by end-2007.

16. **Significant measures will be taken to improve the monitoring and efficiency of budget execution** (MEFP paragraph 16). In 2007, the authorities succeeded in making the budget operational by end-January, an important step toward more efficient budget execution during the fiscal year. Going forward, they plan to overhaul their monitoring systems to strengthen treasury cash management and ensure timely and accurate budget execution reports. On the payment side, steps were taken in late 2006 to reduce the treasury payment period from 120 to 90 days; the objective is to reduce it further to 60 days by end-2007 and to 30 days in 2008.

17. **Several immediate steps are planned to enhance the quality of public investment** (MEFP paragraph 17). Public procurement plays a key role as a gate keeper for large expenditure decisions. The role of the public procurement office (DGMP) has been strengthened over the past year, most recently by establishing a web site that includes all tenders for government contracts as well as actual awards. Going forward, the DGMP will continue to increase the proportion of contracts that are awarded on a competitive tender basis, with the objective of raising it from a level of 35 percent in 2006, to above 50 percent in 2007 and to 70 percent by 2008. This target would bring Gabon close to the 75 percent target considered good international practice by the World Bank in its assessment of countries' PFM systems. A particular focus will be placed on improving the effectiveness and quality of expenditure under the *fêtes tournantes* (rotating regional independence celebrations). Project lists will be prepared earlier and made publicly available, while all spending will be subjected to normal budgetary procedures, including on public procurement.

18. **Work is underway to strengthen oil revenue administration** (MEFP paragraph 18). In 2004, Gabon decided to participate in the Extractive Industries Transparency Initiative (EITI) with the objective of enhancing transparency and accountability in the oil sector. Since then, the authorities have published two reports, the most recent one in early April 2007 covering oil revenue streams in 2005.[9] The reports show continued difficulties in fully reconciling company payments with government receipts. With the objective of strengthening the government's ability to monitor oil revenues, the authorities have

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[9] See Gabon EITI web site at http://www.eitigabon.org/ .

contracted a private company to develop a monthly oil-revenue accounting model. The model will allow both ex-post monitoring and forecasting based on contract parameters, applied field-by-field, taking into account production, prices, and costs. The model should also facilitate the incorporation of some currently-excluded revenue streams and the associated spending into the government budget, notably the *Provisions pour Investissements Diversifiés (PID)* and *Provisions pour Investissements Hydrocarbures (PIH)*.[10] The authorities expect the model to be available by September 2007 and they intend to operationalize it by applying it to 2007 revenues in early 2008.

19. **The non-oil revenue basis will be reinforced** (MEFP paragraph 19). The Large Taxpayer Unit (LTU), created in 2004, is now operational. The authorities are preparing a new general tax code, which will incorporate all the revisions that were made in recent years. Looking ahead, the authorities are launching an in-depth review of prevailing tax exemptions. As a first step, they plan to compile an inventory of such exemptions and to include an estimate of their cost in the report accompanying the 2008 budget. Subsequently, the authorities plan a comprehensive overhaul of the system of tax exemptions. Finally, the seizure of tax delinquent forestry permits is likely to have a positive impact on tax compliance in this important sector of the economy.

Private sector development: Enhancing governance and transparency

20. **Promoting private sector development is crucial to economic diversification and poverty reduction.** Diagnostic studies, including by the World Bank Group's Foreign Investment Advisory Services (FIAS), point to several constraints (Box 3). The government has embarked on a three-pronged strategy, focused on privatizing or restructuring inefficient parastatal enterprises; improving the legal and regulatory environment, including by reinforcing governance and transparency; and enhancing the business environment, including by strengthening physical infrastructure and financial services.

21. **The restructuring of public enterprises is reaching its conclusion** (MEFP paragraph 22)**.** A majority stake in Gabon Télécom was sold in February 2007. Air Gabon, with a long and costly history of budgetary support, is in the final stages of liquidation. Most of its assets have been sold and a large part of its obligations have been settled; the authorities expect the liquidation to be concluded by end-September 2007. The restructuring of Gabon Poste is well underway. While postal services will remain in the public sector, the enterprise will be severely downsized and its budgetary subsidy strictly limited and

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[10] Both PID and PIH are long-standing contract provisions in the concession agreement with one of the largest foreign oil companies active in Gabon under which a small proportion of corporate taxation is earmarked for specific investment expenditures. The mission was informed that, in recent years, both PID and PIH have averaged about US$13.5 million (totaling 1¼ percent of total oil revenues and equivalent to ½ percent of non-oil GDP in 2006) and have been dedicated to infrastructure and defense expenditure, respectively, operated outside of the government budget.

diminishing over time. Finally, the long-stalled forestry reform program has restarted (MEFP paragraph 23). The seizure of tax-delinquent forestry permits represents an important step toward the restructuring of the forestry sector, an effort in which the government has received support from the World Bank.[11]

Box 3. Constraints to Private Sector Development

Economic diversification is critical to Gabon's long term economic growth. Recent diagnostic studies identified significant shortcomings constraining a more dynamic development in non-oil private sector activity. Well aware of the need to strengthen non-oil private sector activity to prepare for the post-oil era, the authorities have recently made important progress in the privatization agenda, but need to tackle more forcefully other structural impediments to private sector development.

According to the 2006 *Doing Business* report, Gabon's overall ease of doing business is ranked close to the average level for Sub-Saharan African countries. The survey found, for example, that it takes approximately 60 days to start a business in Gabon, against 35 in South Africa, and it requires eight administrative steps to register property in Gabon, while only 6 would be needed in South Africa.

2006 Doing Business Indicators: Ranking for Selected Countries

	Ease of Doing Business	Starting a Business	Dealing with Licenses	Registering Property	Enforcing contracts	Hiring and firing workers
South Africa	29	57	45	69	43	87
Botswana	48	93	136	34	77	62
Ghana	94	145	83	113	50	120
Gabon	**132**	**142**	**54**	**149**	**77**	**159**
Cameroon	152	152	151	131	170	135
Sub- Saharan Africa (avg.)	*131*	*125*	*110*	*121*	*111*	*118*

Source: World Bank, Doing Business Indicators database.

The World Bank Group's Foreign Advisory Services (FIAS) reviewed Gabon's investment climate in 2004. The FIAS review identified the following key constraints: the heavy regulatory environment, particularly for the creation of new businesses; the high cost of utilities, harbor services, and transportation; the lack of access to financing for small and medium-size enterprises; and the cumbersome judicial system that is an obstacle to the effective resolution of commercial disputes. Participants in a joint public-private sector workshop that discussed the FIAS findings and recommendations in 2005 proposed some measures to address the most urgent constraints and recommended a follow-up study to formulate a pragmatic plan to streamline the regulatory environment.

[11] The Natural Resource Management Development Policy Loan (DPL) was approved by the World Bank Board in late 2005 and is expected to become effective in May 2007. It supports a rich reform agenda in forestry, fisheries, biodiversity and the environment. It also supports Gabon's participation in the EITI.

22. **Efforts are underway to improve the business climate** (MEFP paragraph 25)**.** Drawing on an action plan prepared in collaboration with the private sector, the government is restructuring the investment promotion agency and streamlining administrative red tape with the objective of reducing the time needed to start a new business to a maximum of seven days. The government has also hired a reputable international consultant to assist in the establishment of a system of voluntary arbitration for commercial dispute resolution, with the aim of complementing the often slow judicial process. Final recommendations are expected by end-2007 and implementation is envisaged in 2008.

23. **The underdeveloped financial system represents an important constraint on private sector development.** Although stable, Gabon's financial sector remains shallow, even by regional standards, with private sector credit reaching about 10 percent of GDP in 2006.[12] The authorities are working with fellow CEMAC members to address regulatory constraints at the regional level identified in the 2006 regional FSAP, including to address the burdensome administrative procedures at the BEAC, which can hinder efficient banking transactions (MEFP paragraph 24). The reforms under way to encourage the registration of real property should help to improve access to bank credit for the private sector, especially SMEs, which will also benefit from ongoing efforts to foster the development of microfinance institutions.

24. **Good governance is key to fostering private sector development.** The anti-corruption commission (National Commission Against Illicit Enrichment—CNLCEI) is still gaining experience, but has recently embarked on a number of investigations and continues to pursue the compulsory asset declarations for certain civil servants (MEFP paragraph 20). To improve transparency and accountability (MEFP paragraph 21), the authorities have launched a campaign to place more documents of great general interest in the public domain, including budget reports, reports of the Audit Court, and reports of the CNLCEI. By end-2007, the authorities intend to publish the official government gazette on the government web site. Efforts are also underway to strengthen both the compilation and dissemination of economic statistics that would help to guide and assess economic policy making.

25. **Effective regional coordination is important for achieving Gabon's long term macroeconomic goals.** Trade policy is formulated at the regional level and Gabon intends to continue to work with its CEMAC partners to lower the high common external tariff (MEFP paragraph 26).[13] Similarly, monetary policy, including reserve management policy, and financial sector reform are largely addressed at the regional level and require continued close coordination (Box 4).

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[12] See *Gabon—2006 Article IV Consultation* , Box 6 (Country Report 06/238), and chapter III of the accompanying *Selected Issues* (Country Report No. 06/232) for an analysis of the access of the private sector to bank credit.

[13] See staff recommendation in *Central Africa Economic and Monetary Community—Staff Report on Common Policies of Member Countries* (Country Report No. 06/317).

Box 4. Regional Coordination Challenges

Economic development in Gabon depends in part on policy decisions that are made at the regional level by the CEMAC (Communauté économique et monétaire de l'Afrique centrale), and the regional central bank BEAC (Banque des Etats de l'Afrique centrale). Areas where coordination at the regional level is critical to advance Gabon's reform agenda are:

Investing long-term fiscal reserves. The accumulation of financial assets in the *Fonds pour les générations futures (FGF)*—at the level required to finance permanently sustainable primary deficits after oil reserves are depleted—presumes that these assets are managed differently than liquid foreign international reserves held at the BEAC to support the regional exchange rate arrangement. The increases in the rate of remuneration of FGF deposits from 1.90 percent in March 2006 to 3.15 percent in December 2006 were steps in the right direction, but the rates remain well below the returns of other oil funds (for example, the Norwegian fund). Discussions are ongoing between CEMAC oil producers and the BEAC on how to ensure adequate remuneration of long-term fiscal reserves.

Creating a regional government securities market. To help integrate the regional financial market, provide financial investment instruments to the private sector, and streamline public debt management, CEMAC members have agreed, in principle, to reduce the use of BEAC statutory advances significantly and eventually replace them by securities, such as Treasury bills, to be traded at the regional level.

Trade reform. At 30 percent, the top rate of the common external tariff remains high by international standards and should be reduced. Regional coordination is also important in the ongoing discussions with the European Union on Economic Partnership Agreements (EPAs). Finally, to facilitate efficient trade transactions, there is scope to streamline administrative payment procedures at the BEAC, which can represent a burden on efficient trade financing.

Program modalities

26. **The proposed SBA has low access and the financial risk to the Fund is low.** Total access would be equivalent to SDR 77.15 million (50 percent of quota or about 17 percent on an annual basis) and would be back loaded (Table 9). Access and phasing reflect the absence of an immediate financing need. The authorities have indicated that they would treat the program as precautionary.

27. **The program envisages semi-annual reviews, the first one associated with performance at end June.** Program conditionality and monitoring is based on quarterly quantitative performance criteria and structural performance criteria and benchmarks in areas critical to achieving the program's objectives. (Table 1 and Table 2 of the MEFP). Fund resources would be made available on a quarterly basis linked to the quantitative performance criteria and semi-annual reviews by the Executive Board.

IV. Staff Appraisal and Risks

28. **The current supportive global environment represents an opportunity for Gabon to make a decisive break from the past.** High oil prices and the welcome vigor in the non-oil economy allow Gabon to address pressing needs, including infrastructural development and the strengthening of social services, while at the same time reducing the vulnerability of the economy to swings in oil prices, the source of many of Gabon's past problems.

29. **The critical challenge facing Gabon is three-fold.** First, to achieve long-term sustainability and avoid the costly boom-and-bust cycles of the past public finances must be placed on a permanently-sound footing. Secondly, to ensure that government spending is effective and yields high returns, the management of public finances must improve significantly . And finally, the development of a dynamic private sector needs to be fostered to prepare for the transition from an oil economy to a post-oil economy. For in the long term, it will be non-oil private sector growth that will create jobs and deliver durable poverty reduction.

30. **Gabon's program faces several risks.** Buoyant oil revenue and urgent needs across the economy mean that pressures on public spending will be significant. At the same time, expenditure controls at present are imperfect and slippages in 2005 and 2006 illustrate the difficulties that the authorities can face to adhere to budgetary spending limits. Gabon also needs to pursue a prudent borrowing strategy, despite the easy availability of foreign financing. In the longer term, accumulating significant fiscal savings, a pre-requisite for a smooth transition to the post-oil era, will require the effective management of long-term fiscal reserves. This is a regional issue that requires careful coordination with Gabon's CEMAC partners.

31. **The government's three-year program appropriately addresses these challenges.** It aims for significant, and front-loaded, fiscal adjustment, which is needed to put public finances on a more sustainable footing. At the same time, it encompasses a comprehensive strategy to strengthen public financial management, which is critical both to guard against the risk of renewed fiscal slippage and to raise the quality and effectiveness of public spending. And finally, it incorporates an agenda for private sector development, including significant steps to improve governance and transparency, which is essential for long-term, sustainable growth. The ambitious program is commensurate to the challenges that Gabon faces. The program is not without risks, but they are manageable. Strong implementation, particularly in its first year, is the best guarantee of success.

32. **On this basis, the staff supports the authorities' request for a three-year Stand-By Arrangement.**

Table 1. Gabon: Selected Economic Indicators, 2004–11

	2004	2005	2006	2007	2008	2009	2010	2011
		Prel.	Est.	Program projections				
	(Annual percent change)							
GDP at constant prices	1.3	3.0	1.2	5.6	4.2	4.3	3.5	2.8
Oil	-1.0	-0.4	-8.9	5.3	2.9	3.1	-0.5	-3.8
Non-oil	2.3	4.3	4.9	5.7	4.7	4.7	4.7	4.8
GDP at current prices	7.8	20.5	9.2	2.3	9.0	5.3	2.9	1.3
GDP deflator	6.3	17.0	7.9	-3.1	4.6	1.0	-0.6	-1.5
Oil	15.7	39.7	19.2	-11.6	6.7	-0.5	-1.4	-2.7
Non-oil	0.5	1.0	4.8	6.1	3.5	2.9	2.2	2.4
Consumer prices								
Yearly average	0.4	0.0	4.0	5.5	3.0	2.5	2.0	2.0
End of period	-0.5	-0.5	6.4	4.5	2.7	2.3	2.0	2.0
External sector								
Exports, f.o.b. (CFA francs)	19.6	35.3	5.9	-2.1	9.8	3.2	-0.6	-4.3
Of which: oil	16.0	38.5	4.5	-4.7	10.5	2.8	-2.0	-6.9
Imports, f.o.b. (CFA francs)	7.2	10.3	15.6	15.1	8.5	7.5	7.1	6.5
Export volume	4.1	0.8	-9.6	5.5	3.4	3.8	0.1	-3.0
Import volume	1.3	4.1	10.8	16.4	14.3	13.6	8.6	7.2
Terms of trade (deterioration -)	8.6	26.8	12.2	-6.1	11.8	5.1	0.6	-0.7
Nominal effective exchange rate (- = depreciation)	1.8	-2.9	2.6	...	...	...	...	...
Real effective exchange rate (- = depreciation)	-1.2	-5.2	7.4	...	...	...	...	...
Central government finance								
Total revenue	7.2	25.7	10.5	0.4	8.1	4.2	2.2	-2.8
Oil revenue	7.6	44.4	11.7	-7.4	9.3	1.3	-2.2	-10.7
Non-oil revenue	6.8	2.6	8.5	14.4	6.2	8.4	8.3	7.2
Total expenditure	6.6	21.7	7.8	-4.0	0.8	2.7	2.1	0.9
Current	4.6	20.3	4.8	-6.2	0.0	2.1	1.5	0.4
Capital	22.4	20.9	23.5	-0.5	3.7	5.3	4.5	2.4
	(Change in percent of beginning-of-period broad money, unless otherwise indicated)							
Money and credit								
Net domestic assets	-23.8	-11.9	-3.4	-7.0	-25.1	-22.5	-20.6	-14.5
Domestic credit	-21.0	-9.7	-2.2	-6.8	-19.6	-21.2	-31.1	-29.3
Central government	-13.6	-14.2	-11.7	-17.3	-27.0	-28.1	-37.6	-35.4
Credit to the economy	-6.5	6.6	10.7	10.6	7.7	7.1	6.5	6.0
(annual percentage change)	-9.3	11.6	21.3	20.5	14.0	12.3	10.8	9.6
Broad money	11.6	26.0	17.4	14.1	8.3	7.7	7.0	7.3
Velocity of broad money (non-oil GDP)	3.4	3.0	2.6	2.5	2.5	2.5	2.5	2.5
	(Percent of GDP, unless otherwise indicated)							
Nominal GDP (Billions of CFA francs)	3,792	4,571	4,992	5,106	5,565	5,861	6,032	6,108
Nominal Non-oil GDP (Billions of CFA francs)	2,091	2,204	2,421	2,713	2,938	3,165	3,386	3,633
Central government								
Non-oil primary balance (in percent of non-oil GDP)	-9.1	-17.5	-18.0	-11.6	-10.0	-8.8	-7.4	-6.0
Augmented non-oil primary balance (in percent of non-oil GDP)[1]	-9.9	-17.8	-19.7	-12.4	-10.0	-8.8	-7.4	-6.0
Overall balance (payment order basis)	7.6	8.6	9.2	10.0	11.4	11.5	11.5	10.3
Overall balance (cash basis)	2.6	7.8	8.6	9.7	11.0	11.2	11.6	10.4
Domestic bank financing	-2.3	-2.4	-1.9	-3.3	-5.4	-5.8	-8.1	-7.5
Net external financing	2.4	-2.0	-3.4	-3.9	-3.9	-4.2	-2.7	-2.6
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External current account balance (including official transfers)	10.3	19.5	18.4	16.9	16.7	14.7	12.8	8.9
External public debt (including the Fund)	49.8	39.1	32.5	27.6	21.3	16.2	13.3	10.4
Total gross public debt	76.9	57.1	44.1	36.7	27.5	20.4	16.6	13.4

Sources: Gabonese authorities and Fund staff estimates and projections.

[1] The augmented balance includes restructuring costs for public enterprises that are being privatized or liquidated, which are classified below the line.

Table 2. Gabon: Summary Fiscal Operations of the Central Government, 2005-10

	2005	2006 [1]	2007	2008	2009	2010
			Program projections			
			(Billions of CFA francs)			
Total revenue and grants	1,434.2	1,582.6	1,594.9	1,722.9	1,794.9	1,834.8
Revenue	1,432.2	1,582.6	1,589.5	1,717.5	1,789.5	1,829.4
Oil revenue	907.2	1,012.9	938.0	1,025.6	1,039.3	1,016.7
Non-oil revenue	525.0	569.7	651.5	691.9	750.2	812.6
Foreign grants	2.0	0.0	5.4	5.4	5.4	5.4
Total expenditure (including net lending)	1,041.1	1,122.1	1,076.8	1,085.5	1,114.4	1,138.0
Current expenditure	789.3	827.5	776.3	776.1	792.1	803.9
Wages and salaries	227.8	252.4	294.0	311.0	327.4	342.2
Goods and services	153.2	167.2	180.2	187.1	197.1	205.2
Transfers and subsidies	279.1	291.3	196.2	183.6	186.1	188.5
Interest payments	129.2	116.6	105.8	94.4	81.5	68.0
Capital expenditure	193.4	238.8	237.6	246.4	259.4	271.1
Domestically financed	146.1	190.0	195.0	197.4	204.3	213.7
Foreign-financed investment	47.3	48.8	42.6	49.0	55.0	57.5
Net lending (including equity participation)	5.0	0.0	0.0	0.0	0.0	0.0
Road Fund (FER) and special funds [2]	53.4	55.8	63.0	63.0	63.0	63.0
Primary balance (on a payment order basis)	522.2	577.0	623.9	731.9	762.0	764.7
Overall balance (payment order basis)	393.0	460.4	518.1	637.4	680.4	696.8
Non-oil primary balance (payment order basis) [3]	-385.0	-435.8	-314.1	-293.8	-277.3	-252.0
Change in arrears	-37.3	-33.5	-21.0	-25.4	-26.0	1.5
Overal balance (cash basis)	355.7	426.9	497.1	612.1	654.4	698.2
Financing	-355.7	-426.9	-497.1	-612.1	-654.4	-698.2
External (net)	-92.4	-167.9	-197.6	-218.2	-245.4	-162.6
Domestic (net)	-263.3	-259.0	-299.5	-393.9	-409.0	-535.6
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items			(Percent of non-oil GDP)			
Non-oil revenue and grants	23.9	23.5	24.2	23.7	23.9	24.2
Primary expenditure	41.4	41.5	35.8	33.7	32.6	31.6
Wages and salaries	10.3	10.4	10.8	10.6	10.3	10.1
Purchases of goods and services	7.0	6.9	6.6	6.4	6.2	6.1
Transfers and subsidies	12.7	12.0	7.2	6.2	5.9	5.6
Capital and net lending	9.0	9.9	8.8	8.4	8.2	8.0
Domestically financed	6.6	7.8	7.2	6.7	6.5	6.3
Foreign-financed investment	2.1	2.0	1.6	1.7	1.7	1.7
Road Fund (FER) and special funds	2.4	2.3	2.3	2.1	2.0	1.9
Non-oil primary balance [3]	-17.5	-18.0	-11.6	-10.0	-8.8	-7.4
Non-fuel subsidy non-oil primary balance [4]	-14.2	-13.8	-10.3	-9.0	-7.8	-6.5
Non-oil GDP at market prices (in billions of CFA francs)	2,203.9	2,421	2,713	2,938	3,165	3,386

Sources: Gabonese authoritiesand Fund staff estimates and projections.

[1] Preliminary data.

[2] The Road Fund and special funds are included in the program fiscal framework but are not part of the annual budget

[3] Non-oil revenue (including grants) minus total primary spending.

[4] Excludes fuel price subsidies.

Table 3. Gabon: Detailed Fiscal Operations of the Central Government, 2005–10

	2005	2006	2007	2008	2009	2010
		Prel. [1]	Program projections			
	(In billions of CFA francs)					
Total revenue and grants	1,434.2	1,582.6	1,594.9	1,722.9	1,794.9	1,834.8
Revenue	1,432.2	1,582.6	1,589.5	1,717.5	1,789.5	1,829.4
Oil revenue	907.2	1,012.9	938.0	1,025.6	1,039.3	1,016.7
On budget	835.2	951.0	905.1	997.0	1,009.5	985.7
SOGARA transfer	71.9	61.9	32.9	28.7	29.9	31.0
Non-oil revenue	525.0	569.7	651.5	691.9	750.2	812.6
Direct taxes	138.6	159.4	182.8	196.5	211.7	226.4
Indirect taxes	113.7	113.7	131.8	130.7	145.6	165.9
VAT on domestic goods and services	80.5	78.4	94.0	90.8	103.5	121.5
Taxes on international trade	215.3	240.4	272.4	294.9	317.7	339.9
Import taxes	179.6	210.1	240.3	260.2	280.3	299.8
Export taxes	35.7	30.2	32.1	34.8	37.4	40.1
Other revenue	57.4	56.2	64.5	69.8	75.2	80.5
Foreign grants	2.0	0.0	5.4	5.4	5.4	5.4
Total expenditure (including net lending)	1,041.1	1,122.1	1,076.8	1,085.5	1,114.4	1,138.0
Total expenditure (excluding interest payments)	911.9	1,005.5	971.0	991.1	1,032.9	1,070.0
Current expenditure	789.3	827.5	776.3	776.1	792.1	803.9
Wages and salaries	227.8	252.4	294.0	311.0	327.4	342.2
Purchases of goods and services	153.2	167.2	180.2	187.1	197.1	205.2
Transfers and subsidies	279.1	291.3	196.2	183.6	186.1	188.5
Subsidies	29.5	18.8	23.4	18.9	16.9	14.9
Other transfers	109.7	208.4	145.3	137.2	141.7	146.1
Security and sovereignty funds	68.0	64.1	27.5	27.5	27.5	27.5
Fuel price subsidies	71.9	102.1	34.6	28.7	29.9	31.0
Interest payments	129.2	116.6	105.8	94.4	81.5	68.0
Domestic	29.3	24.5	18.8	17.4	16.4	16.1
External	99.9	92.2	87.0	77.0	65.2	51.8
Capital expenditure	193.4	238.8	237.6	246.4	259.4	271.1
Domestically financed investment	146.1	190.0	195.0	197.4	204.3	213.7
Independence day investment	50.0	50.0	50.0	50.0	50.0	50.0
Other investment	96.1	140.0	145.0	147.4	154.3	163.7
Foreign-financed investment	47.3	48.8	42.6	49.0	55.0	57.5
On budget	8.9	7.9	10.7	49.0	55.0	57.5
Off budget	38.4	40.9	31.9	0.0	0.0	0.0
Net lending	5.0	0.0	0.0	0.0	0.0	0.0
Road Maintenance Fund (FER) and special funds[2]	53.4	55.8	63.0	63.0	63.0	63.0
Primary balance, incl. grants (on a payment order basis)	522.2	577.0	623.9	731.9	762.0	764.7
Overall balance, incl. grants (on a payment order basis)	393.0	460.4	518.1	637.4	680.4	696.8
Change in arrears	-37.3	-33.5	-21.0	-25.4	-26.0	1.5
External (on interest payments)	-2.9	-0.3	0.0	0.0	0.0	0.0
Domestic	-34.5	-33.2	-21.0	-25.4	-26.0	1.5
Overall balance (on a cash basis)	355.7	426.9	497.1	612.1	654.4	698.2
Financing	-355.7	-426.9	-497.1	-612.1	-654.4	-698.2
External (net)	-92.4	-167.9	-197.6	-218.2	-245.4	-162.6
Drawings	47.3	63.3	42.6	49.0	55.0	57.5
Project financing	47.3	48.8	42.6	49.0	55.0	57.5
On budget	8.9	7.9	10.7	49.0	55.0	57.5
Off budget	38.4	40.9	31.9	0.0	0.0	0.0
Program financing	0.0	14.5	0.0	0.0	0.0	0.0
Amortization	-219.4	-232.5	-240.1	-267.2	-300.4	-220.1
Arrears (on principal, reduction = -)	0.0	0.0	0.0	0.0	0.0	0.0
Debt rescheduling and deferral	77.3	1.2	0.0	0.0	0.0	0.0
Debt cancellation	2.4	0.0	0.0	0.0	0.0	0.0

Table 3. Gabon: Fiscal Operations of the Central Government, 2005–10 (concluded)

	2005	2006	2007	2008	2009	2010
		Prel. [1]	Program projections			
	(In billions of CFA francs)					
Domestic (net)	-263.3	-259.0	-299.5	-393.9	-409.0	-535.6
Banking system	-110.6	-97.3	-169.5	-301.6	-339.6	-488.8
Bank of Central African States	-65.6	-115.7	8.9	77.3	0.0	0.0
Commercial banks	-45.0	18.3	-178.4	-378.9	-339.6	-488.8
Nonbank sources	-152.7	-161.7	-130.1	-92.2	-69.4	-46.8
Domestic debt	-137.2	-76.3	-126.3	-92.2	-69.4	-46.8
Debt department and other debt (DGCP)	-117.1	-55.7	-106.3	-72.2	-49.4	-26.8
Debt at the treasury (Clubs de Libreville)	-35.0	23.9	-42.7	0.0	0.0	0.0
Regularization of civil servants' salaries (*arrieres de la solde*)	-20.0	-20.6	-20.0	-20.0	-20.0	-20.0
Change in domestic arrears (on principal, - = reduction)	-0.9	0.0	0.0	0.0	0.0	0.0
Restructuring costs (social plan)	-8.1	-39.8	-22.5	0.0	0.0	0.0
Debt rescheduling and cancellation	20.1	-27.8	0.0	0.0	0.0	0.0
Privatization proceeds (cession actifs)	0.0	0.0	19.0	0.0	0.0	0.0
Other	-26.6	-17.8	-0.3	0.0	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:	(In percent of GDP)					
Total revenue and grants	31.4	31.7	31.2	31.0	30.6	30.4
Total revenue (excluding grants)	31.3	31.7	31.1	30.9	30.5	30.3
Oil revenue	19.8	20.3	18.4	18.4	17.7	16.9
On budget	18.3	19.1	17.7	17.9	17.2	16.3
SOGARA transfer	1.6	1.2	0.6	0.5	0.5	0.5
Non-oil revenue	11.5	11.4	12.8	12.4	12.8	13.5
Total expenditure	22.8	22.5	21.1	19.5	19.0	18.9
Total expenditure, excluding interest payments	20.0	20.1	19.0	17.8	17.6	17.7
Current expenditure	17.3	16.6	15.2	13.9	13.5	13.3
Wages and salaries	5.0	5.1	5.8	5.6	5.6	5.7
Purchases of goods and services	3.4	3.3	3.5	3.4	3.4	3.4
Transfers and subsidies	6.1	5.8	3.8	3.3	3.2	3.1
Interest payments	2.8	2.3	2.1	1.7	1.4	1.1
Capital expenditure	4.2	4.8	4.7	4.4	4.4	4.5
Net lending	0.1	0.0	0.0	0.0	0.0	0.0
FER and special funds	1.2	1.1	1.2	1.1	1.1	1.0
Primary balance, incl. grants (on a payment order basis)	11.4	11.6	12.2	13.2	13.0	12.7
Overal balance (on a cash basis)	7.8	8.6	9.7	11.0	11.2	11.6
	(In percent of non-oil GDP)					
Non-oil revenue and grants	23.9	23.5	24.2	23.7	23.9	24.2
Primary expenditure	41.4	41.5	35.8	33.7	32.6	31.6
Non-oil primary balance [3]	-17.5	-18.0	-11.6	-10.0	-8.8	-7.4
Oil prices (U.S. dollars/barrel)	53.4	64.3	60.8	64.8	64.5	64.3
GDP at market prices (billions of CFA Francs)	4,571	4,992	5,106	5,565	5,861	6,032
Non-oil GDP at market prices (billions of CFA Francs)	2,204	2,421	2,713	2,938	3,165	3,386
Fund for Future Generations (stock in billions of CFA Francs)	84	120	214	316	420	522

Sources: Gabonese authorities; and Fund staff estimates and projections

[1] Preliminary data.

[2] The Road Fund and special funds are included in the program fiscal framework but are not part of the annual budget

[3] Non-oil revenue (including grants) minus primary spending.

Table 4. Gabon: Balance of Payments, 2005–11

	2005	2006	2007	2008	2009	2010	2011
	Prel.	Est.	Program projections				
			(billions of CFA francs)				
Current account (including transfers)	891	920	861	928	859	773	545
Exports, f.o.b.	2,989	3,166	3,101	3,404	3,513	3,491	3,340
Oil sector	2,489	2,602	2,480	2,740	2,815	2,758	2,568
Other sectors	499	563	621	664	698	733	772
Imports, f.o.b.	-716	-828	-953	-1,034	-1,111	-1,190	-1,267
Oil sector	-198	-135	-185	-185	-172	-160	-142
Other sectors	-518	-693	-767	-849	-939	-1,030	-1,125
Trade balance	2,273	2,338	2,148	2,370	2,402	2,301	2,073
Services (net)	-1,275	-1,314	-1,238	-1,393	-1,495	-1,482	-1,482
Of which							
Interest on public debt (gross)	-79	-94	-89	-79	-62	-49	-39
Profits (net)	-701	-733	-652	-736	-811	-761	-731
Current transfers (net)	-107	-103	-49	-48	-47	-46	-45
Public	-36	-38	5	5	5	5	5
Private	-71	-65	-54	-53	-52	-51	-50
Capital account	-793	-726	-661	-578	-509	-423	-245
Capital transfers (net)	3	3	0	0	0	0	0
Public	3	3	0	0	0	0	0
Private	0	0	0	0	0	0	0
Medium- and long-term capital	-361	-457	-322	-241	-144	-71	-71
Public sector	-134	-177	-219	-234	-239	-156	-161
Drawings (gross)	47	63	43	49	55	57	62
Amortization (gross)	-181	-241	-262	-283	-294	-214	-223
Direct investment and portfolio investment (net)	-146	-159	-86	6	105	90	90
Other capital inflows (net)	-82	-120	-17	-13	-10	-5	0
Oil sector	-48	-65	-9	-11	-12	-12	-12
Non-oil sector	-34	-55	-8	-3	2	7	12
Short-term capital	-435	-273	-340	-337	-365	-351	-174
Oil sector	-192	-122	-306	-303	-329	-316	-156
Non-oil sector	-117	-41	-34	-34	-37	-35	-17
Errors and omissions	-126	-110	0	0	0	0	0
Overall balance	98	194	200	350	350	350	300
Financing	-98	-194	-200	-350	-350	-350	-300
Central Bank, net foreign assets (- = increase)	-168	-194	-200	-350	-350	-350	-300
IMF net (- = increase)	-10	-10	-17	-12	0	0	0
Purchases (gross)	0	0	0	0	0	0	0
Repurchases (gross)	-10	-10	-17	-12	0	0	0
Other net assets (- = increase)	-158	-184	-183	-338	-350	-350	-300
Debt rescheduling	73	0	0	0	0	0	0
Arrears net (- = reduction)	-3	0	0	0	0	0	0
Financing gap	0	0	0	0	0	0	0
Memorandum items:			(Percent of GDP, unless indicated otherwise)				
Current account (including official transfers)	19.5	18.4	16.9	16.7	14.7	12.8	8.9
Oil	33.4	31.4	30.7	31.7	31.6	29.2	28.0
Non-oil	-13.9	-13.0	-13.8	-15.0	-16.9	-16.3	-19.0
Current account (excluding official transfers)	20.3	19.2	16.8	16.6	14.6	12.7	8.8
Capital account	-17.3	-14.5	-13.0	-10.4	-8.7	-7.0	-4.0
Overall balance	2.2	3.9	3.9	6.3	6.0	5.8	4.9
Gross official reserves (Billions of CFA francs)	375	559	742	1,080	1,430	1,780	2,080
In months of imports of GNFS	3.5	4.7	5.7	7.6	9.5	11.1	12.3
World oil price (U.S. dollars/barrel)	53.4	64.3	60.8	64.8	64.5	64.3	63.8
National oil price (U.S. dollars/barrel)	50.5	60.3	56.8	60.8	60.5	60.3	59.8
Oil production (in million tons)	13.3	11.9	12.5	12.9	13.3	13.2	12.5
GDP (in billions of CFA francs)	4,571	4,992	5,106	5,565	5,861	6,032	6,108
Exchange rate CFA francs per U.S. dollar (average)	526.6	522.4	…	…	…	…	…

Sources: Gabonese authorities and Fund staff estimates and projections.

Table 5. Gabon: Monetary Survey, 2004–09

	2004	2005	2006	2007	2008	2009
			Est.	Program projections		
	(Billions of CFA francs)					
Net foreign assets	291.4	541.9	715.4	922.1	1,294.8	1,659.4
Central bank	165.2	334.0	527.9	729.0	1,078.9	1,428.9
Assets	216.2	375.4	558.6	743.1	1,081.3	1,431.3
Liabilities	-51.1	-41.4	-30.7	-14.1	-2.4	-2.4
Deposit money banks	126.2	208.0	187.5	193.2	215.9	230.5
Assets	193.7	265.3	246.7	252.4	275.1	289.7
Liabilities	-67.5	-57.3	-59.2	-59.2	-59.2	-59.2
Net domestic assets	369.3	290.6	262.4	193.7	-86.6	-357.9
Net domestic credit	498.6	434.2	416.1	349.3	130.2	-125.5
Net credit to the public sector	124.1	16.4	-90.6	-261.3	-566.3	-907.3
Net credit to the government	151.5	57.8	-39.6	-209.0	-510.6	-850.3
Central bank	94.3	29.4	-86.2	-238.7	-510.2	-815.9
Claims	197.2	174.1	89.9	60.4	39.0	31.2
Of which						
Statutory advances	148.1	135.4	60.9	48.7	39.0	31.2
Use of IMF credit	40.5	38.9	28.4	11.7	--	--
Deposits	102.8	144.6	176.1	299.1	549.2	847.1
Deposit money banks	57.2	28.3	46.7	29.7	-0.4	-34.4
Post office savings	6.6	4.0	6.5	6.5	8.5	10.5
Claims on public agencies, net	-34.1	-45.4	-57.5	-58.8	-64.1	-67.5
Credit to the economy	374.5	417.9	506.7	610.7	696.4	781.8
Other items, net	-129.3	-143.6	-153.7	-155.6	-216.8	-232.3
Broad money	660.6	832.6	977.8	1,115.8	1,208.2	1,301.5
Currency outside banks	138.7	190.2	219.1	265.5	287.5	309.7
Demand deposits	250.5	330.3	398.9	447.1	484.1	521.5
Time deposits	271.5	312.1	359.8	403.3	436.6	470.4
	(Changes in percent of beginning-of-period broad money)					
Net foreign assets	35.5	37.9	20.8	21.1	33.4	30.2
Net domestic assets	-23.8	-11.9	-3.4	-7.0	-25.1	-22.5
Net domestic credit	-21.0	-9.7	-2.2	-6.8	-19.6	-21.2
Net credit to the government	-13.6	-14.2	-11.7	-17.3	-27.0	-28.1
Credit to the economy	-6.5	6.6	10.7	10.6	7.7	7.1
Broad money	11.6	26.0	17.4	14.1	8.3	7.7
	(Annual percent changes, unless otherwise indicated)					
Credit to the economy	-9.3	11.6	21.3	20.5	14.0	12.3
Broad money	11.6	26.0	17.4	14.1	8.3	7.7
Of which : currency outside of banks	11.7	37.1	15.2	21.2	8.3	7.7
Memorandum items:						
Velocity						
Non-oil GDP	3.4	3.0	2.6	2.5	2.5	2.5
Total GDP	5.7	5.5	5.1	4.6	4.6	4.5
Non-oil GDP growth	2.8	5.4	9.9	12.1	8.3	7.7
Total GDP growth	7.8	20.5	9.2	2.3	9.0	5.3
Credit to the economy/non-oil GDP	17.9	19.0	20.9	22.5	23.7	24.7

Source: Bank of Central African States (BEAC) and staff projections.

Table 6. Gabon: Banking Sector Soundness Indicators, 2001-06

(Ratios in percent)

	2001	2002	2003	2004	2005	2006
Capital adequacy						
Regulatory capital to risk-weighted assets	17.2	17.6	19.9	17.8	24.0	32.0
Ratio of total loans larger than 15 percent of capital to eight times capital[1]	7.3	4.5	7.8	5.9	10.2	7.0
Assets quality						
NPLs to total gross loans	8.6	11.4	13.8	15.8	14.3	11.1
NPLs to total capital	35.2	52.9	59.4	59.8	41.9	34.5
NPLs provisions to total NPLs	63.0	66.5	78.8	78.4	80.3	84.5
Earnings and profitability						
Interest margin to gross income	173.8	187.1	206.0	219.4	…	…
Return on equity	15.4	11.8	14.4	17.1	…	…
Return on assets	2.4	1.8	0.7	2.7	…	…
Liguidity						
Liquid assets to short-term liabilities	128.8	134.0	185.3	219.5	235.1	210.4

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.

Table 7. Gabon : Capacity to Repay the Fund, 2006-14

	2006	2007	2008	2009	2010	2011	2012	2013	2014
	(Millions SDR, unless otherwise indicated)								
Obligations from existing drawings									
Principal (repurchases)	9.8	22.2	15.6	--	--	--	--	--	--
Charges	2.6	1.6	1.2	0.6	0.6	0.6	0.6	0.6	0.6
Credit outstanding	37.8	15.6	--	--	--	--	--		
(percent of quota)	24.5	10.1	--	--	--	--	--		
Obligations from prospective drawings									
Principal (repurchases)	--	--	--	1.7	8.8	20.3	28.1	16.6	1.6
Charges	--	0.2	1.0	2.4	3.8	3.4	2.1	0.7	0.1
Credit outstanding	--	11.0	32.0	62.3	66.6	46.3	18.2	1.6	--
(percent of quota)	--	7.1	20.7	40.4	43.2	30.0	11.8	1.1	--
Cumulative (existing and prospective)									
Principal (repurchases)	9.8	22.2	15.6	1.7	8.8	20.3	28.1	16.6	1.6
Charges	2.6	1.8	2.1	3.0	4.3	4.0	2.7	1.3	0.6
Credit outstanding	37.8	26.6	32.0	62.3	66.6	46.3	18.2	1.6	--
Percent of quota	24.5	17.3	20.7	40.4	43.2	30.0	11.8	1.1	--
Percent of GDP	0.6	0.4	0.4	0.8	0.8	0.6	0.2	--	--
Percent of exports of goods and services	0.9	0.6	0.7	1.3	1.4	1.0	0.4	--	--
Percent of external public debt	1.7	1.4	2.0	4.9	6.2	5.4	2.8	0.3	--
Percent of external public debt service	8.5	5.7	6.7	13.1	19.0	13.2	5.8	1.1	--
Percent of gross foreign reserves	4.9	3.0	2.9	4.7	4.2	2.5	0.8	0.1	--
Memorandum items:									
Purchases	--	11.0	21.0	32.0	13.2	--	--	--	--

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

Table 8. Gabon: Indicators of External Vulnerability, 2001-06

	2001	2002	2003	2004	2005	2006
Exports (percent change, 12-month basis in U.S. dollars)	-21.4	-2.0	24.2	31.5	35.6	6.8
Imports (percent change, 12-month basis in U.S. dollars)	6.0	10.6	11.3	17.8	10.5	16.5
Terms of trade (percent change, 12-month basis)	-9.9	4.2	3.6	8.6	26.8	12.2
Current account balance, incl. grants (in percent of GDP)	11.0	6.9	9.5	10.3	19.5	18.4
Gross official reserves (millions of U.S. dollars)	48.5	139.9	196.5	442.0	678.5	1125.2
Gross official reserves (in months of imports of goods and services of the following year) [1]	0.4	1.0	1.0	2.0	3.1	4.3
Gross reserves of the banking system (millions of U.S. dollars) 1	186	252	359	838	1,158	1,622
Gross reserves of the banking system (in months of imports of goods and services of the following year) [1]	1.4	1.8	1.9	3.9	5.4	6.1
Central bank short-term foreign liabilities (millions of U.S. dollars) [1]	105.6	68.4	71.1	104.4	74.9	61.9
Total public and publicly guaranteed debt (millions of U.S. dollars)	3,030	3,360	3,687	3,857	3,234	3,270
Total external debt to exports of goods and services (in percent)	106.7	117.6	101.1	80.9	58.0	49.8
External interest payments to exports of goods and services (in percent)	13.3	6.5	5.7	3.9	2.6	2.9
External amortization payments to exports of goods and services (in percent)	15.6	13.7	10.6	9.6	5.9	7.4
Exchange rate (per U.S. dollar, period average)	732.4	694.6	580.1	527.6	526.6	522.4
Exchange rate (per U.S. dollar, end of period)	718.4	644.2	533.7	489.2	553.3	496.5
Net foreign assets of commercial banks (millions of U.S. dollars)	52.8	-15.4	27.4	257.9	375.9	377.7

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 9. Gabon: Purchase Schedule and Terms Under the Proposed Stand-By Arrangement, 2007-10[1]

	Amount of Purchase		Percent of Program	Availability Date	Conditions include
1.	SDR million	5.50	7.1	May, 2007	Executive Board Approval
2.	SDR million	2.75	3.6	September 15, 2007	Completion of First Review and observance of end-June 2007 performance criteria
3.	SDR million	2.75	3.6	December 15, 2007	Observance of end September 2007 performance criteria
4.	SDR million	4.00	5.2	March 15, 2008	Completion of Second Review and observance of end-December 2007 performance criteria
5.	SDR million	4.00	5.2	June 15, 2008	Observance of end March 2008 performance criteria
6.	SDR million	6.50	8.4	September 15, 2008	Completion of Third Review and observance of end-June 2008 performance criteria
7.	SDR million	6.50	8.4	December 15, 2008	Observance of end September 2008 performance criteria
8.	SDR million	8.00	10.4	March 15, 2009	Completion of Fourth Review and observance of end-December 2008 performance criteria
9.	SDR million	8.00	10.4	June 15, 2009	Observance of end March 2009 performance criteria
10.	SDR million	8.00	10.4	September 15, 2009	Completion of Fifth Review and observance of end-June 2009 performance criteria
11.	SDR million	8.00	10.4	December 15, 2009	Observance of end September 2009 performance criteria
12.	SDR million	13.15	17.0	March 15, 2010	Completion of Sixth Review and observance of end-December 2009 performance criteria

[1] Total access under the Stand-by Arrangement is SDR 77.15 million (50 percent of quota).

Appendix I. The Authorities' Letter

Libreville, April 15, 2007

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. de Rato:

Gabon's economic performance has improved since 2005: the pace of growth has accelerated, budget surpluses are solid, and the burden of external debt has been reduced. However, the government of Gabon is fully aware of the need to address rapidly the difficult challenges going ahead, notably the anticipated decline in oil production over the medium term, and the pressing need to reduce poverty and improve the quality of life of the Gabonese people. To this end, our medium-term economic program aims to put public finances on an irreversible course toward long-term sustainability, increase the quality and efficiency of public spending, and promote the diversification of the Gabonese economy.

The attached Memorandum of Economic and Financial Policies sets out the objectives and policies of the government of Gabon for 2007-10. In support of these policies, the government of Gabon is requesting a three-year Stand-By Arrangement with the IMF in the amount of SDR 77.15 million, equivalent to 50 percent of Gabon's IMF quota. The government does not intend to make any drawing under this arrangement.

The government believes that the policies and measures described in the attached Memorandum are adequate to achieve the program objectives, but it stands ready to take any further measures that may become appropriate for this purpose. We will consult with the IMF regularly, in accordance with Fund policies on such consultations, and we will provide the Fund staff with any information that it may request for monitoring progress in program implementation.

Program execution will be monitored through quarterly quantitative performance criteria and structural performance criteria and benchmarks set forth in Tables 1 and 2 of the Memorandum of Economic and Financial Policies for 2007-2010 and by means of six semi-annual reviews with the Fund, the first expected to be completed by mid-September 2007, the second by mid-March 2008.

The government authorizes the publication by the IMF of its Memorandum of Economic and Financial Policies for 2007-10, and of the IMF staff report on Gabon's request for a Stand-By Arrangement.

Sincerely yours,

/sgd/

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

Annexes: Memorandum of Economic and Financial Policies and Technical Memorandum of Understanding.

Attachment I. Memorandum on Economic and Financial Policies of the Government of the Gabonese Republic for 2007–10 under a Three-Year Stand-By Arrangement

I. Introduction

1. **This memorandum describes our economic program for the period April 2007–March 2010** and outlines the measures we intend to implement during the first year of the program. The main objectives are to foster socio-economic development and the transition toward the post-oil era. For the economic program outlined in this memorandum, we are requesting support from the IMF under a new three-year Stand-By Arrangement. Given our strong balance of payments position, we do not expect to make any drawings under this arrangement.

2. **Between May 2004 and July 2005, within the framework of an economic program supported by a Stand-By Arrangement with the IMF, we made considerable progress,** which enabled us to restore macroeconomic stability, eliminate all external and most domestic payment arrears, and launch a comprehensive structural reform program. The favorable effects of the rise in international crude oil prices have led to substantial improvement in our fiscal and external balances, and macroeconomic stability contributed to a robust economic recovery driven by other export products, such as manganese and timber, and by the service industries.

3. **Since mid-2005, we have been pursuing our economic reform program in a setting of non-oil growth of 4.5 percent in 2005-06, the highest level since 2001.** Air Gabon, whose losses were a heavy burden on government finances, was liquidated. Gabon Télécom was privatized. Furthermore, the transparency of oil revenue was improved by participating in the Extractives Industries Transparency Initiative (EITI) and publishing the first EITI report on the African continent.

4. **Despite good growth performance, macroeconomic imbalances appeared in late 2005 and late 2006, against the backdrop of a packed political calendar**. In particular, the non-oil primary deficit[1] far exceeded budgetary targets, reaching 17.5 percent of non-oil GDP in 2005 and 18 percent in 2006, mainly owing to a sharp increase in government spending. At the same time, average inflation accelerated to 4 percent in 2006.

5. **The Gabonese government set out its long-term vision in its Growth and Poverty-Reduction Strategy Paper (PRSP).** Following an in-depth poverty analysis, which revealed that almost a third of the population still lives below the poverty line, the PRSP was built on four basic pillars: (i) fostering robust, sustainable growth that benefits the poor; (ii) improving

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[1] The non-oil primary deficit includes fuel price subsidies and all externally financed capital expenditure, but does not include oil revenues or interest expenditure on public debt (see attached Technical Memorandum of Understanding).

infrastructure; (iii) expanding access to essential services; and (iv) strengthening governance. This strategy, which was prepared in close collaboration with civil society, recognizes that a decisive reduction in poverty requires sustained economic growth and job creation. This in turn requires a solid macroeconomic framework underpinned by a sustainable fiscal position and structural policies conducive to private-sector development.

II. Economic Policy Objectives for 2007–10

6. **For Gabon, the main challenge underlying the three-year program for which we are requesting IMF assistance, is to prepare the economy for the post-oil era so as to achieve the goal of reducing poverty**. For this reason, our economic policy for 2007–10 is built around three main objectives:

- significantly lowering the non-oil fiscal deficit to a sustainable level by the end of the program;
- strengthening public financial management, notably to ensure the inclusion of all revenue and expenditure in the government budget and to improve the quality and effectiveness of spending; and
- accelerating structural reforms to foster private sector development, the principal engine of job creation and poverty reduction.

7. **The main macroeconomic objectives for 2007-10 are to achieve a non-oil growth rate of about 5 percent while containing inflation below 3 percent.** Our fiscal policy will play a key role in attaining these objectives. We intend to reduce the non-oil primary deficit to about 6 percent of non-oil GDP by 2011, a level that would be sustainable over the long term. The aim of the budgetary framework included in the program is to lower the non-oil primary deficit from 18 percent of non-oil GDP (including subsidies on oil products) in 2006 to 11.6 percent in 2007, 10 percent in 2008, 8.8 percent in 2009, and 7.4 percent in 2010. This remarkable adjustment is justified by the findings of various studies showing that because oil reserves will be depleted within 30 years, the sustainable level of the non-oil primary deficit relative to non-oil GDP should be limited to around 6 percent per year if fiscal management is to be viable in the long term. It should be stressed that the level of the sustainable non-oil primary deficit would fall to 3.75 percent of non-oil GDP if oil prices were to return to the 2000-05 average (US$30/bbl). The oil revenue windfall to be expected in the medium term from tapping Gabon's reserves should therefore be used for fiscal consolidation, notably by considerably reducing the public debt burden and increasing budget surpluses to ensure the financial stability of future generations.

III. THE FIRST YEAR OF THE PROGRAM: APRIL 2007–MARCH 2008

Fiscal policy

8. **For 2007, we intend to contain the non-oil primary deficit to CFAF 311 billion, that is, 11.5 percent of non-oil GDP.** To this end, we have taken several measures, notably on the expenditure side. Fuel price subsidies will be reduced by around CFAF 50 billion in relation to the level anticipated in 2007 based on the February 2007 IPPs (see paragraph 10); sovereign and security expenditure will be limited to CFAF 27.5 billion; subsidies to parastatal enterprises to CFAF 20.6 billion; and other public transfers to CFAF 110.7 billion. Maintaining central control over the payroll will enable us to limit the public sector wage bill to CFAF 294.0 billion, and to keep the impact of recent increases in the minimum wage (SMIG) and the index point at the level set in the budget. We recognize that in order to ensure the success of our fiscal adjustment strategy, any increase in the wage bill beyond this level will have to be offset by a reduction in expenditure on other budget items. As regards the investment budget, capital expenditure will reach CFAF 237.6 billion—including CFAF 42.6 billion of external financing. On the revenue side, our oil revenues are estimated at CFAF 938 billion, while non-oil revenues could reach CFAF 651.5 billion, excluding grants (CFAF 5.4 billion). This budgetary framework will be fully reflected in a supplementary budget that we will present to parliament by end-June 2007.

9. **The civil service reform initiated in 2005 will enable better management of public servants.** Human resources management will be more effective, particularly owing to the introduction of prior budget approval for the creation of new posts. The remuneration of government employees will be linked more directly to the post they occupy. Moreover, promotion will be merit-based and early retirement will be facilitated. However, the wage bill may rise owing to certain provisions of the new staff regulations, such as a higher retirement age and the creation of various government posts covered by separate regulations. To minimize the potential impact on the wage bill, the government will ensure that the implementing legislation is adopted only after a simulation of the effect on the wage bill has been performed and measures have been drawn up to guarantee that the overall impact on the budget will be neutral.

10. **We have decided to reduce fuel price subsidies significantly while taking steps to mitigate the social impact.** These subsidies have increased considerably in recent years, totaling over CFAF 70 billion in 2005 and exceeding CFAF 100 billion in 2006. We showed clearly the extent of the subsidies by reflecting them in the 2006 supplementary budget and in the 2007 budget law. To reduce them, we increased the price of Jet A1 fuel by raising the SOGARA ex-refinery price to bring it into line with international prices (import price parity - IPP) as of August 1, 2006, and on March 3, 2007 premium gasoline and diesel fuel prices were increased by about 25 percent. As of April 23, 2007, any increase in international prices will be passed through to the price structure in Gabon. Accordingly, we will ensure that any increase in IPPs over and above the March 2007 levels will trigger an automatic adjustment

in step with the ex-SOGARA prices of all the products concerned. As a result, we estimate that fuel price subsidies will amount to no more than CFAF 34.6 billion in 2007. During the second quarter of 2007, we will prepare a fuel price adjustment strategy to ensure that the subsidies are further reduced by end-2008. In this strategy a distinction will be drawn between products that have a social impact, such as domestic kerosene, which will be adjusted gradually, and other products, which will be adjusted more quickly.

11. **Concomitantly, we have identified offsetting measures to alleviate the impact that reduced subsidies will have on the poor.** Thus, we have decided to apply the following measures: supplying water at no charge to households with a monthly water bill of less than CFAF 2,288 (threshold for the low-income rate, $15m^{3/}$month); providing electricity free of charge to households with an electricity bill of less than CFAF 13,625 (threshold for the low-income rate, 240 kwh/month); waiver of school fees and free textbooks; benefits for lower income citizens and single mothers; a higher budget allocation for retroviral drugs to fight AIDS; support for microcredit; and an appropriation made available to the Banque gabonaise de l'habitat to subsidize interest rates on loans. We have also decided to conduct a new census of the poorest households throughout the country before reassessing their benefits. On the basis of the PRSP, we plan to increase capital expenditure on social projects, notably in the field of health, in the energy sector, such as rural electrification, and drinking-water supply projects. We have also decided to restructure SOGATRA to enable it to improve service in Libreville. We estimate that the total cost of these social projects will be CFAF 19.3 billion over and above the 2007 budget.

12. **The sustained high level of oil prices requires an appropriate strategy to manage our foreign exchange reserves and public debt.** We will work with the other members of the subregion, in the context of Bank of Central African States (BEAC) reforms, to find a solution that will ensure financial stability while affording each country greater flexibility in investing their reserves on a long-term basis in order to secure higher rates of return, comparable to the yields of long-term financial instruments on the international markets. The recent BEAC increases in the rate of remuneration of deposits made in the Fund for Future Generations already reflect this approach, but they are not sufficient. At end-2006, the Directorate General of Government Accounting (DGCP) completed a census of all public sector liabilities, including guarantees given by the central government for the debt of local governments and state enterprises. By end-2007, we will finalize a strategy with our main creditors for paying off our external debt, with a view to significantly reducing the debt burden. This government strategy could be based on the early repayment of debt in return for an effort on the part of creditors to forgo some of what is owed to them. At the same time, we will pursue a prudent borrowing policy, bearing in mind the sustainability of our debt in the long term. On the domestic debt front, we will continue to reduce BEAC statutory advances significantly and support their eventual elimination in favor of securities that can be traded within the CAEMC. We also intend to eventually eliminate investment credit (*bons d'équipement*), a costly government financing tool that is no longer suited to current circumstances. The liquidation of a number of public enterprises, including Air Gabon and

Gabon Poste, entailed the assumption of debt by the government, and in early 2007 we also concluded a fourth agreement on the rescheduling and settlement of long-standing claims on the government within the Libreville Club. A final agreement could be considered, concerning FER (road maintenance fund) arrears, the amount of which has to be confirmed by an audit report by the Audit Office by end-2007.

Public financial management

13. **Reforms to strengthen public financial management comprise the core of our reform program**. Notably, the strategy includes measures to improve the quality and effectiveness of expenditure management and budgetary processes, as well as the management of oil and non-oil revenues.

14. **We have devised measures to improve budget preparation within a consistent medium-term framework.** In order to facilitate multiyear budget programming, a medium-term expenditure framework (MTEF) is being prepared. By end-2007, we plan to prepare, for each ministry, a priority action program, grouping programs together by strategic objective with detailed timetables and well-identified borrowing requirements. In principle, projects already under way are considered high priority and no new projects may be entered in the budget without the corresponding feasibility studies. These sectoral programs will be consolidated in a three-year global MTEF at end-2007. The aim is to fully integrate the MTEF in the preparation of the 2009 budget. Better coordination between the Ministry of Planning, the Ministry of Finance, and the sectoral ministries will from now on yield opportunities for consistent integration of the operating and capital budgets, and a more accurate assessment of recurrent spending associated with capital expenditures.

15. **Improving the transparency of the budget presentation is an important objective.** Since 2006, fuel price subsidies have been included in the budget. To improve the clarity of the budget presentation, we will introduce in the economic and financial report annexed to the 2008 budget law, summary budget execution reports for the previous two fiscal years, by major category. Furthermore, to facilitate expenditure monitoring in the priority sectors, we will introduce a functional classification. This is already available for most current expenditure and we intend to cover all government expenditure by end-2007. We will also include an estimate of tax expenditures in the economic and financial report attached to the 2008 budget law.

16. **We will improve the monitoring and efficiency of budget execution.** Measures have been taken to ensure that the budget can be implemented speedily. The 2007 budget law was promulgated before end-December 2006 and the budget took effect at end-January 2007. To facilitate the monitoring of budget execution, our reporting system is being overhauled so that by end-2007, the Directorate General of the Budget will be able to produce execution reports which record, budget line by budget line, the different phases of budget execution (appropriations confirmed, appropriations committed, appropriations authorized) within a

maximum of two months; this is also the period within which the Directorate General of the Treasury Department will be able to produce the overall balance of the treasury accounts. We will then proceed to implementation of the automatic compilation of the TOFE from the general government accounts and the budget execution reports of the Directorate General of the Budget by end-2008. At present we are also preparing a cash-flow plan that will enable us to optimize expenditure management on the basis of the available resources, which should be available by September 15, 2007. This enhanced cash-flow management will be implemented concomitantly with an actual commitment schedule, in consultation with appropriations managers. It will be steered by the Treasury Committee chaired by the Minister of Finance and comprising the Treasurer/Paymaster General, Commissioner General for Planning, the Director General of the Budget, the Director General of Public Accounting, and the Director General of Taxes. At the same time, we plan to further reduce the period for treasury settlement. Having been reduced from 120 to 90 days since October 2006, it will be progressively reduced to 60 days by end-2007 and to 30 days by end-2008. To reduce the time lags, which have led to major backlogs in collecting oil revenues, we have agreed with the commercial banks to accelerate the check-cashing procedure, which will now take no longer than five days. To strengthen the principle of the single treasury account, we have created inside the Treasury a central accounting agency for deposits and consignments that should bring all state's financial resources under a single accounting post. Before becoming operational, the new agency's structure and operations will be discussed with staff during the first review of the program. We will prepare an enhanced mechanism for the future monitoring of Security and Sovereignty Fund expenditure. As far as the physical monitoring of services rendered is concerned, we will ensure that coordination among the various monitoring bodies is enhanced.

17. **We have begun to implement certain measures to raise the quality of public investment expenditure.** First, we have adopted measures designed to achieve more efficient government procurement, while strengthening monitoring of its execution. Since September 30, 2006, we have been publishing all tenders for government contracts as well as the actual awards on the website of the Directorate General of Government Procurement (DGMP). A government procurement gazette will be published by end-June 2007 to facilitate broader dissemination of this information in the national press. Our objective is to ensure that from now on all contracts of CFAF 30 million or more are processed by the DGMP. Eventually, our intention is to reduce appreciably the share of directly negotiated government contracts, in an effort to bring it down to below 50 percent of the total value of contracts of CFAF 30 million or more by end-2007, and to 30 percent by end-2008. Secondly, we are determined to increase the quality and efficiency of expenditure on our *fêtes tournantes* (regional independence celebrations). The audit of the 2003-04 *fêtes tournantes* uncovered several deficiencies. The requirement to complete all projects by August 17 led to weaknesses in both the preparation and the implementation of the projects. From now on there will be no obligation to complete work before the start of the *fêtes tournantes* if this will compromise the quality of the projects. To improve the quality of these expenditures, we

plan to submit them fully to the current budgetary procedures, including those for government procurement. To improve monitoring of this expenditure, we intend to publish in the national press by end-April 2007 a list of the 2007 *fêtes tournantes* projects in the Estuaire province. The list of 2008 *fêtes tournantes* projects will also be published in the national press by end-2007. This should facilitate preparation of the projects and their inclusion in the MTEF, which is under preparation. To ensure proper follow up, we have decided to submit the 2005-06 *fêtes tournantes* to a new audit, which will be completed by end-2008.

18. **We will continue to enhance the transparency of oil revenue management.** The 2004 EITI report pointed up the need to strengthen oil revenue administration to provide reasonable assurances that we are receiving all oil revenue due under the current laws and contracts. For this purpose, on July 10, 2006 we established an oil revenue monitoring committee (COSUREP), composed of the departments responsible for finance and oil. The main mission of this committee is to identify all government oil revenues; ensure that the government actually receives the revenues identified; help the authorities prepare oil revenue forecasts; identify measures to facilitate information-sharing among the departments involved in oil resource management; and check the consistency of oil information. The committee will be responsible for monitoring the work of the consultants tasked with preparing a model to verify and forecast oil revenues. The model should allow monthly oil revenues receivable to be calculated by applying the tax and contract parameters, field by field, to production, prices, and real costs. On April 12, 2007, we signed a contract with a consultant recruited on the basis of an international call for tender. The model will be submitted to the government by end-September 2007 and will become operational in the final quarter of 2007. It will then be applied to evaluate monthly oil revenue payments collected by the Treasury in 2007 and to identify reasons for discrepancies in the oil revenues received. We will also ensure that all oil revenues—including the provisions for diversified investments (PID) and hydrocarbon investments (PIH)—are reflected transparently in the budget beginning with the 2008 budget law. COSUREP will also put in place a mechanism for regular monitoring of transactions relating to the government's shareholding interests in exploration and production sharing contracts (CEPP).

19. **We undertook several measures to improve non-oil revenue administration.** The Large Taxpayer Unit (LTU), created in September 2004, is now operational. It is entrusted with the task of collecting taxes from enterprises with sales of more than CFAF 1.5 billion, exclusive of taxes. We are also in the process of finalizing the new general tax code, incorporating all changes made in past years, which will be presented to parliament by end-September 2007. In this connection, we have begun to re-think the various prevailing tax exemptions, which reduce the assessment of value-added tax (VAT), the tax on individuals, and customs duties. The aim is to start a thorough reform of exemptions and tax expenditure in 2008, based on an inventory of all tax expenditure prepared by end-June 2007. The return to the public domain of the first wave of forestry permits held by delinquent taxpayers will have a positive impact on the collection of taxes in this sector (see paragraph 23).

Governance and transparency

20. **We are determined to strengthen governance in Gabon.** We will therefore redouble our efforts to fight corruption and the misappropriation of public funds, which are both scourges impeding our development. The Audit Court, the highest fiscal oversight agency, has enhanced its role. Moreover, the National Commission Against Illicit Enrichment (CNLCEI), established in 2004, has already made significant strides in educating the public. However, much remains to be done, especially in the area of asset disclosure. Only 1,700 civil servants have submitted their declarations to the commission, out of an initial target group of 3,000 subject to the requirement. Accordingly, the chair of the commission has sent a list of recalcitrants to the competent authorities for application of the penalties provided for by law. Civil servants who have still not submitted their declaration by end-April 2007 will have their names published in the national press by end-June 2007. In the international arena, we have been participating in NEPAD's Peer Review Mechanism. We are expecting that Gabon will be evaluated in 2007 and that the public report will be prepared by end-2008. In 2005, we ratified the United Nations Convention against Corruption. Lastly, we expect to institute bidding procedures for exploration and production licenses in the oil sector as of 2008.

21. **We are pursuing our policy of increased transparency.** The second report on our participation in the EITI was published on April 6, 2007. The coverage of this second report was expanded to include all oil revenue flows, including the profit oil excluded from the first report, as well as the mining sector. We have set up a special website for the EITI containing all the relevant information, including the taxation of oil and mining activities and model oil and mining contracts. We also launched a national initiative known as Gabon—Open Government, the aim of which is to make available to the general public all important documents of public interest. We began by posting on the Ministry of Finance's website (i) the 2004, 2005, and 2006 supplementary budgets; (ii) the Audit Court report on budget execution in 2003 and 2004; (iii) the report on the audit of the *fêtes tournantes* and the arrears of the Road Maintenance Fund (FER) prepared in 2005; and (iv) the annual reports of the CNLCEI for 2005 and 2006. By end-2007 we will begin timely publishing of the official gazette of Gabon on the Internet.

Structural reforms

22. **We have made considerable progress in restructuring and privatizing public enterprises.** The liquidation of Air Gabon is being finalized. The majority of assets have been sold and the liquidator has begun to repay liabilities. We expect the liquidation to be completed by end-September, at which time the government will assume the remaining liabilities. A wholly private airline is currently being set up; this company will not receive any government budget support. In February 2007, the government sold 51 percent of the capital of Gabon Télécom to a private investor to improve the management of the company. Gabon Poste, which is also in liquidation, has been replaced by La Poste, a new state

enterprise. The payment of allowances to former staff and the settlement of social security debts have begun and should be completed by end-June 2007. The staff of the new entity will be appreciably smaller, which will reduce costs. However, to carry out its public service mission, it will continue to receive a budget subsidy, the amount of which will gradually diminish. Finally, SOGATRA, an urban transport public enterprise, is on the verge of bankruptcy. It has been decided to immediately embark on the restructuring of SOGATRA with the objective, over time, to introduce a more efficient management model, such as management contract, so as to ensure a sustainable high-quality public service for the end-user.

23. **We are strengthening our reforms in the forestry industry.** To begin with, we have begun revoking the forestry permits held by persons in breach of their tax obligations. In early April, we have adopted a decree to begin returning to the public domain, in a first wave, 116 permits in arrears since 2002 or 2003, representing a surface area of 1.8 million hectares. The remaining permits in arrears will be subject to the same procedures by end-2007. Secondly, after much thought, we have decided to suspend parliamentary consideration of the draft law on the National Forestry Fund. In its current form, the draft law is fraught with major risks, especially concerning the earmarking of a sizable share of the tax revenues, a provision which runs counter to good budgetary practice.

24. **We are continuing to strengthen the financial system, a key element in private-sector growth and development.** Within the CEMAC, we have supported the liberalization of interest rates, especially minimum lending rates, which represent a significant cost for banks. We will also work with our partners in the subregion to streamline the BEAC administrative procedures that burden current transactions, to facilitate efficient banking transactions and so promote private sector development. The credit bureau (*centrale des risques*) will be strengthened to help financial institutions conduct better analyses and in the long run improve private sector access to bank credit. The reforms under way to encourage the registration of real property should also play an important role in improving access to bank credit for the private sector, especially SMEs. At the same time, we will continue to foster microfinance development in line with the corresponding national strategy, the main aim of which is to establish throughout the country more institutions that can help poor and low-income households as well as micro entrepreneurs gain access to viable and sustainable local financial services.

25. **We are determined to take firm measures to improve the business climate.** Progress was made with the arrangements put in place to promote business startups and development. Some problems remain, owing to the complexity and slowness with which the reforms already adopted by the government are being implemented. However, by adopting the GPRSP, the government has endorsed an action plan drawn up following a series of seminars and workshops involving the private sector. The action plan provides for the restructuring of the Private Investment Promotion Agency (APIP). For the moment, the APIP is focusing on improving its one-stop-shop to reduce the time needed to start up a new

business to a maximum of seven days. The APIP will bring together on its website all legislation on private investment (e.g., the Mining Code, the Forestry Code, the Law on Tourism Investment, the General Tax Code, the Registration Code, the Procurement Code, and the Law on Competition). On the legal front, work is under way to bring Gabon law into line with the provisions of the OHADA, to allow its uniform acts to be incorporated into the domestic legislation and improve enforcement of the acts by the courts. Finally, the PAPSUT (Priority Action Program for the Urban Sector and Transportation) study identified the infrastructure constraints facing the private sector. In 2007, we will define the priority projects and study in particular the case of the port of Owendo, through which 90 percent of Gabon's non-oil trade passes and which constitutes a major obstacle to the country's growth.

26. **Trade liberalization, especially within the subregion, remains an important element in our economic policy.** For this purpose, we will continue to work with our partners within the CAEMC to lower the high common external tariff.

27. **In order to improve the monitoring and analysis of our economic policy, we will strengthen the quality and reliability of our economic statistics.** For this purpose, the government has launched its National Statistical Development Strategy (SNDS). The drafting of the strategy is due to start in 2007 and end in 2008. It is a medium-term frame of reference that will redefine the institutional framework (statistical law, National Statistical Council, bylaws of the Directorate General of Statistics and Economic Research—DGSEE) and establish a work program with the same time frame. In the 2008 budget law, the government will include a budget allocation based on a detailed formulation of needs. By end-June 2007 we will publish a new price index: CAEMC Harmonized Consumer Price Index (HCPI). We will then overhaul the national accounts, based on the methodology of the new United Nations *System of National Accounts (SNA93)*, the first usable results of which are expected in 2009-10.

IV. Program Monitoring

28. Monitoring of the first year of the three-year Fund-supported program will be conducted based on quarterly quantitative performance criteria at end-June, end-September, and end-December 2007 (see Table 1) and structural performance criteria and benchmarks. The prior actions, structural performance criteria and benchmarks are set out in Table 2. The definitions of the economic variables and reporting procedures are contained in the attached Technical Memorandum of Understanding.

Table 1. Gabon: Quantitative Performance Criteria Under the Stand-By Arrangement 2007-10

(Billions of CFA francs; end-period data; cumulative flows from January 1st) [1]

	2006	2007		2007	
	Dec.	Mar.	Jun.	Sep.	Dec.
	Prel.	Est		Program	
Performance criteria					
Floor on the primary fiscal balance, excluding oil revenue and restructuring costs (on a payments order basis) [2]	-435.8	-83.2	-150.4	-246.5	-314.1
Ceiling on the net claims of the banking system on the central government [3]	-39.6	-71.5	-128.8	-125.4	-209.0
Ceiling on the contracting or guaranteeing of new external debt by the central government [4]	164.5	129.5	140.0	155.0	165.2
Ceiling on the accumulation of external payments arrears by the central government [5]	0.0	0.0	0.0	0.0	0.0
Ceiling on the accumulation of new payment arrears on domestic liabilities by the central government	...	0.0	0.0	0.0	0.0
Memorandum items					
Foreign financed projects	63.3	11.0	21.0	30.7	42.6
Non-project external financing	14.5	0.0	0.0	0.0	0.0
Oil revenue	1,012.9	234.0	463.9	685.8	938.0
Privatization receipts	0.0	13.1	19.0	19.0	19.0
External debt service (excluding IMF)	324.6	105.1	172.1	273.4	327.2
Domestic debt service	107.9	38.1	75.3	107.5	145.1
Public enterprises restructuring costs	39.8	4.7	12.9	17.1	22.5
Net change in unpaid payment orders at the treasury	-27.8	-5.3	-10.5	-15.8	-21.0
Change in outstanding wage arrears (*rappels de solde*)	-20.6	-5.0	-10.0	-15.0	-20.0
Banks' purchases of outstanding government domestic debt (*rachat de creances*)	....	0.0	0.0	0.0	0.0

Sources: Gabonese authorities and Fund staff estimates and projections.

[1] Indicative target for March, 2007. Targets for June, September and December are performance criteria under the Stand-by Arrangement. Detailed definitions of the performance criteria are provide in the Technical Memorandum of Understanding.

[2] The performance criterion will adjusted upward/downward for any lower/higher execution of foreign financed investment. The downward adjustemnt is capped at CFAF 25 billion.

[3] The performance criterion will be adjusted upward/downward for any lower/higher than programmed oil revenue and lower/higher than programmed privatization receipts. The performance criterion will also be adjusted upward/downward for any higher/lower payments of external debt service, higher/lower payments of domestic debt service, higher/lower public enterprises restructuring costs, higher/lower reduction of unpaid payment orders at the treasury, higher/lower reduction of wage arrears related to the ongoing reconstruction of government employees' careers *(rappels de la solde)*. The upward adjustments for domestic debt service, restructuring costs, reductions in unpaid orders at the treasury and reductions in *rappels de la solde* are limited to CFAF 5 billion in addition to the programmed levels. Finally, the performance criterion will be adjusted upward for any increase in commercial banks credit to the government reflecting new purchases by commercial banks of existing government domestic debt towards non-banks *(rachat des créances)*.

[4] 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 guranateed fro which value has not been received. The performance criterion will be adjsuted upward to include new external loans contracted in the context of a debt buy-back operation that could be concluded with Gabon's bilateral external creditors.

[5] The non accumulation of new external payments arrears will constitute a continuous performance criterion.

Table 2. Gabon—Prior Actions, and Structural Performance Criteria and Benchmarks Under Proposed Stand-By Arrangement, 2007–10

		Actions	Date[1]	PC or Benchmark
Prior actions		Reaching an understanding on a fiscal framework for 2007 consistent with a reduction in the NOPD to 11½ percent of non-oil GDP.	Done	
		Increase in retail fuel prices consistent with a reduction in subsidies of at least CFAF 50 billion over the expected level in 2007.	Done	
		Implement the agreement between the government and the oil refinery SOGARA for the settlement of its tax arrears and the resumption of the government's compensation payments.	Done	
		Signature of a contract between the government and a private company for the development of a contract-based, monthly oil-revenue model.	Done	
		Return to the public domain of 116 forestry permits with tax arrears since 2002-03, representing a total surface of 1.8 million hectares.	Done	
		Conclude the privatization on Gabon Telecom by divesting a majority of the share capital to a private investor.	Done	
First year				
First review	1	Apply the automatic adjustment formula to ex-refinery fuel product prices to reflect changes in international prices.[2] (para. 10)	Continuous	**PC**
	2	Subject all 2007 spending for the *fêtes tournantes* to regular budgetary procedures. (para. 17)	Continuous	**PC**
	3	Strengthen treasury cash management by establishing a annual treasury cash plan. (para. 16)	Sep. 15, 2007	**PC**
	4	Prepare a compilation of all tax expenditures. (par. 15)	Jun. 2007	**BM**
	5	Submit to Parliament a new tax code, incorporating all the modifications made in recent years. (para. 19)	Sep.15, 2007	**BM**
	6	Publish the names of all government officials who have not complied with the asset declaration requirement by end-April 2007. (para. 20)	Jun. 2007	**BM**
	7	Disseminate to the wider public key documents of public interest by posting on the Ministry of Finance's website (i) the 2004, 2005, and 2006 supplementary budgets; (ii) the reports of the Audit Court (*Cour des comptes*) on budget execution in 2003 and 2004; (iii) the reports on the audit of the *fêtes tournantes* and the arrears of the Road Maintenance Fund (FER) prepared in 2005; and (iv) the annual reports of the CNLCEI for 2005 and 2006. (para. 21).	Jun. 2007	**BM**

		Actions	Date[1]	PC or Benchmark
	8	Adopt new CPI with weights based on 2005 household expenditure survey. (para. 27)	Jun. 2007	**BM**
Second review	1	Present to Parliament a 2008 budget that includes in the accompanying economic and financial report (i) summary budget execution reports for 2005–06 and estimates for 2007; and an annex with estimates of all tax expenditures by type of taxes. (para. 15)	Dec. 2007	**PC**
	2	Make operational the oil-revenue projection model that links oil revenue to production, prices, costs, and fiscal parameters on a contract by contract basis, apply it to evaluate oil revenue payments collected by the treasury in 2007, and identify reasons for discrepancies in realized oil revenues. (para. 18)	Feb. 2008	**PC**
	3	Publish the list of projects under the 2008 *fêtes tournantes* in the national press. (para. 17)	Dec. 2007	**BM**
	4	Prepare a comprehensive government asset and liability strategy. (para. 11)	Dec. 2007	**BM**
	5	Develop a three-year, rolling medium-term expenditure framework including consistent sectoral programs for 2008-10. (para. 14)	Dec. 2007	**BM**
	6	Reduce Treasury payment period to 60 days and announce it on the Treasury website. (para. 16)	Dec. 2007	**BM**
	7	Prepare monthly budget execution reports with a maximum lag of 2 months. (para. 16)	Dec. 2007	**BM**
	8	Reduce the proportion of government procurement contracts awarded on a single-source basis on exceptional grounds to below 50 percent of the total value of contracts submitted to the public procurement office. (para. 17)	Dec. 2007	**BM**
	9	Publish the official gazette on the internet. (para. 21)	Dec. 2007	**BM**
Second year		**Indicative**		
	1	Present to Parliament a 2009 budget that includes (i) oil-revenue projections resulting from the oil revenue model; (ii) a functional classification of expenditure; and (iii) a medium-term expenditure framework for 2009–11		**PC**
	2	Reduce Treasury payment period to 30 days by end 2008.		**BM**
	3	Prepare six-monthly assessments of oil revenue based on the oil-revenue model and identify reasons for discrepancies in realized oil revenues.		**BM**
	4	Reduce the proportion of single-source government procurement contracts awarded on a single-source basis on exceptional grounds to below 30 percent of the total value of contracts submitted to the public procurement office.		**BM**
	5	Prepare an audit of the *fêtes tournantes* for 2006–07.		**BM**

		Actions	Date[1]	PC or Benchmark
	6	Prepare a comprehensive review of all VAT and PIT tax exemptions with the objective of curtailing them significantly.		**BM**
Third year		**Indicative**		
	1	Present to Parliament a 2010 budget that includes (i) oil-revenue projections resulting from the oil revenue model; (ii) a functional classification of expenditure; and (iii) a medium-term expenditure framework for 2010–12		**PC**
	2	Adopt new VAT and PIT laws in line with best international practice.		**BM**
	3	Introduce new national accounts methodology based on the United Nations SNA93.		**BM**

[1] Unless otherwise specified, all dates refer to the end of the month.

[2]The functioning of the adjustment mechanism to ensure a gradual convergence to international market prices is specified in the technical memorandum of understanding.

Attachment II. Technical Memorandum of Understanding

1. This memorandum spells out the understandings for the monitoring of program implementation, and the reporting requirements for the period April 2007–March 2010. In this context, it defines (a) the quantitative performance criteria; (b) the structural performance criteria and benchmarks; (c) the adjusters for the quantitative performance criteria; and (d) the key assumptions used in the formulation of the program for 2007–10 presented in the Memorandum for Economic and Financial Policies (MEFP) of the government of Gabon attached to the letter from the Minister of Economy, Finance, Budget, and Privatization to the Managing Director of the International Monetary Fund dated April 15, 2007.

A. Monitoring of Program Implementation

2. Monitoring of the implementation of the program will be made on the basis of an assessment of the observance of quarterly quantitative performance criteria as well as of the structural performance criteria and benchmarks at specified dates.

B. Quantitative and Structural Performance Criteria, Definition, Computation and Adjusters

Quantitative performance criteria

3. The quantitative performance criteria are specified in Table 1 of the MEFP. The quantitative performance criteria are the following:

- a floor on the primary fiscal balance of the central government on a payments order basis, excluding oil revenue and restructuring costs posted as "financing";
- a ceiling on the net claims of the banking system on the central government;
- a zero limit on the accumulation of external payments arrears by the central government (a continuous performance criterion);
- a zero limit on the accumulation of arrears on central government domestic liabilities;
- a ceiling on new external debt contracted or guaranteed by the government with original maturities of more than one year;

4. The program includes adjusters for the quantitative performance criteria as specified in paragraph 16 below and summarized in footnotes 2, 3 and 4 of Table 1 of the MEFP.

Definitions and computation

5. For the purpose of this TMU, the term "central government" covers all agencies, institutions, and special funds (including the Road Fund), the operations of which fall under the definition of 'Central Government' in the IMF's Government Finance Statistics Manual, 2001, paragraphs 2.48-50. The authorities will inform the Fund staff of any new funds, or other special budgetary and extra-budgetary programs that may be created during the program period to carry out operations of a fiscal nature and will ensure that these will be incorporated within the definition of central government.

6. **The non-oil primary fiscal balance,** on a payment order basis (*ordonnancements*), is defined as the difference between (a) total central government revenue on a cash basis (excluding oil revenue); and (b) total central government expenditure on a payment order basis (*ordonnancements*) excluding interest payments.

7. **Total central government revenue** is measured on a cash basis and includes offsetting revenue and expenditure operations, including private sector tax obligations offset against central government obligations to the private sector. Tax receipts are specified in the Table of central government financial operations (*Tableau des opérations financières de l'Etat–TOFE*), including all earmarked revenues (Road Fund and special funds). Oil revenue includes payments received in cash and in crude. Oil revenue under PID (*provisions pour investissements diversifiés*) and PIH (*provisions pour investissement en hydrocarbures*), which have so far been excluded from reporting in budget documents will be included once they become available. Revenue received by the treasury will be registered after encashment, which will be at most 7 days after the date of receipt; oil revenue received in kind will be recorded at transaction value on the day of sale.

8. **Total central government expenditure** includes spending on a payment order basis (*ordonnancements*), and treasury advances (*avances à régulariser*), and outlays on special funds and from earmarked revenues. It excludes restructuring costs for public enterprises as defined in paragraph 9 and other financial treasury operations as described in paragraph 10.

9. **The restructuring costs** excluded from total government expenditure and posted as "financing" represent the redundancy costs relating to the public enterprises to be liquidated or privatized in the context of the central government's divestiture of its productive sector holdings, the operating costs (consultants, etc.) of the Secretariat of the Privatization Committee, and administrative and legal costs arising from legal challenges related to these divestment operations. The restructuring costs to be classified as financing in 2007 are capped at CFAF 22.45 billion and comprise the following:

Enterprise	Costs in billions of CFAF
Gabon Poste	10.0
CNGS	2.0
SOGATRA	2.6
APIP	0.5
SNBG	2.5
Administrative and legal cost related to social plans	4.0
Current expenditure of Privatization Committee	0.85
Total	**22.45**

10. **The financial operations specified in the *TOFE*** relating to treasury correspondents (*correspondants du Trésor*), local governments (*collectivités locales*), and other treasury operations (*autres opérations de trésorerie*) correspond to the change from period to period in the balance of these accounts.

11. **The outstanding amount of the net claims of the banking system on the central government** is measured in accordance with the accounting practice at the central bank, the BEAC ("IMF format"), excluding deposits of the postal checking account system.[1] As of December 31, 2006, this outstanding amount was CFAF 39.6 billion, and its breakdown was as follows:

Net Claims of the Banking System on the Central Government as of December 31, 2006
(CFAF billions)

Statutory advances from the BEAC	60.9
Plus: CFA franc counterpart of use of Fund resources	28.4
Plus: consolidated advances	0.7
Minus: deposits at the BEAC and treasury cash	176.4
Of which: Account for Future Generations	120.1
Plus: Commercial banks claims on government	88.3
Of which: Bons d'équipements	70.4
Minus: government deposits with commercial banks	41.7
Total	39.6

12. **The accumulation of external payments arrears** by the central government, which is a continuous performance criterion with a zero limit, is calculated as the difference between (a) the amount of each maturity falling due on account of contractual external debt-service obligations (interest and/or principal, including moratorium and late/penalty interest,

[1] The deposits of the postal checking account system are excluded since they are not at the disposal of the treasury

where applicable); and (b) the amount of actual payments made for each debt service payment due during the period under consideration. Arrears resulting from the nonpayment of the debt service for which a rescheduling agreement is sought are excluded from this definition.

13. **The total stock of central government domestic liabilities** is defined as the stock of government's outstanding liabilities to bank and non-bank domestic creditors scheduled to be extinguished in the future. Domestic non-bank liabilities include all the domestic debt registered at the National Debt Office (DGCP), all other documented domestic liabilities registered at the treasury, which have not been accounted for at the DGCP and the stock of wage arrears[2]. It also includes public enterprise domestic debt taken over by the government in the context of restructuring operations. This definition excludes intragovernmental debt, and the treasury float. The outstanding stock of domestic debt at end-December 2006 was CFAF 475.6 billion and the stock of domestic non-bank liabilities was CFAF 297.4 as shown in the following summary table:

Gabon: Stock of Domestic Government Liabilities As Of End-December 2006

(Billions of CFA francs)

Stock of domestic debt	**475.6**
Liabilities to the domestic Banking system	***178.2***
BEAC	89.9
of which Avances statutaires	*60.9*
Commercial banks	88.3
of which Bons d'Equipement	*70.4*
Non-Bank domestic debt	***297.4***
Registered at the DGCP	75.5
Registered at the treasury	109.9
Club de Libreville	17.9
Other	92.0
Wage arrears (*rappels de la solde*)	112

14. **The treasury float** consists of the "payment orders at the treasury" and the "other treasury float." The "payment orders at the treasury" corresponds to the difference between the cumulative payment orders (*ordonnancements*) and the cumulative actual payments on a cash basis (cashed checks, bank transfers or cash payment). The "other treasury float" includes the accounts on "subsidies," "consignments," "accounting agencies," including "transfers between accounting offices" related to budgetary operations, and "installments to be allocated." At end-December 2006, the treasury float amounted to CFAF 26.8 billion, comprising CFAF 39.2 billion in "payment orders" and CFAF -12.4 billion in "other treasury float." For 2007, the net reduction of the treasury float is defined as the reduction in the float existing at end-2006, less the accumulation of new float during 2007.

[2] The wage arrears (*rappels de la solde*) correspond to the unpaid salary component resulting from delayed regularization of automatic promotions (*avancements*) of civil servants.

15. **The performance criterion on the contracting and guaranteeing of new external debt** with maturity of over one year by the central government applies not only to debt as defined in point 9 of the *Guidelines on Performance criteria with Respect to Foreign Debt*, adopted by the IMF on August 24, 2000, but also to commitments contracted or guaranteed for which no value has yet been received.

Adjustments to quantitative performance criteria

16. The quarterly performance criteria will be adjusted as follows:

- The primary non-oil fiscal balance of the central government will be adjusted to reflect **expenditure related to the inclusion of PID and PIH oil revenue** into the budget reporting.

- The floor on the non-oil primary fiscal balance of the central government will be adjusted downward for higher-than-programmed external financing up to the equivalent of CFAF 25 billion per year.

- With the objective of shielding fiscal objectives from **uncertainties regarding oil prices and output**, the ceiling on the net claims of the banking system will be adjusted upward/downward if oil revenue is below/above the baseline projections in a given quarter. If the Brent oil price projections as reported by the IMF-WEO decline by more than 30 percent from the baseline program projection for 2007 (US$60.75 per barrel), then a consultation between the IMF and the government is required;

- The ceiling on net credit from the banking system to the central government will be adjusted upward/downward for higher/lower-than programmed **external debt service** effectively paid;[3]

- The ceiling on net claims from the banking system to the central government will be adjusted upward/downward for higher/lower-than programmed **domestic debt service payments**. The upward adjustment is limited to CFAF 5 billions;

- The ceiling on net claims from the banking system to the central government will be adjusted upward/downward for lower/higher-than-programmed net **reduction in the treasury float**. The upward adjustment is limited to CFAF 5 billions;

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[3] External debt service due minus any accumulation of external arrears minus debt relief obtained. The programmed amounts of debt service, payments arrears, debt relief, and non-project external financing are calculated in CFA franc terms based on end 2006 exchange rates. The actual amounts are calculated in CFA franc terms based on the actual transactions in foreign currency and the exchange rates published by the Fund.

- The ceiling on net claims from the banking system to the central government will be adjusted downward for lower-than-programmed restructuring costs as defined in paragraph 8;

- The ceiling on net claims from the banking system to the central government will be adjusted upward to reflect any purchase by commercial banks of outstanding contractual government credit held by non-bank private sector creditors as of end 2006 (*rachat de créances*).

- The ceiling on net claims from the banking system to the central government will be adjusted downward/upward for higher/lower-than-programmed privatizations receipts.

- The ceiling on the contracting or guaranteeing by the government of new external debt will be adjusted to reflect new debt that could be contracted in the context of an external debt buy-back/restructuring operation that would result in a net present value reduction of Gabon external public debt .

17. The structural performance criteria and benchmarks are specified in Table 2 of the MEFP attached to the letter of April 15, 2007. The relevant definitions are described in paragraphs 18–20.

18. **The fuel price subsidy** is defined as the transfer by the government to the refinery (SOGARA)—including through the delivery of crude oil to be valued at the official sale price (*prix de cession officiel*)—to compensate it for differences between import parity prices (PPI) and government controlled ex-refinery fuel prices. PPI are calculated on the basis of the formula detailed in government decree No. 01217/PR/MFEBPP of September 25 1998. Ex-ante, the subsidy is projected as the difference between the expected PPI and ex-SOGARA price for each fuel product , multiplied by the expected sale volumes. Ex-post, the subsidy equals the difference between the actual PPI and ex-SOGARA prices, multiplied by the actual sale volumes, as illustrated in the following table:

Example: Calculation of Fuel Price Subsidy, June 2005

	Super gasoline	Lighting kerosene	Jet kerosene	Diesel	Butane	Fuel oil	Asphalt
Import parity price, PPI (in CFAF/M3 or T)[1]	288,424	269,293	321,021	277,369	229,663	181,701	200,432
Actual ex-refinery price (in CFAF/M3 or T)	214,404	145,693	197,693	172,313	155,717	142,348	146,857
Difference (in CFAF/M3 or T)	74,020	123,600	123,328	105,056	73,946	39,353	53,575
Quantity sold on domestic market (M3 or T)[1]	4,735	3,707	5,959	31,609	2,098	8,897	122
Fuel price subsidy for the month (million CFAF)	350.5	458.2	734.9	3,320.7	155.1	350.1	6.5

1 Asphalt, butane, and fuel oil quantities are expressed in metric tones (T). The remaining products are expressed in cubic meters (M3).

19. **The adjustment mechanism of ex-refinery SOGARA prices** will be applied as follows. Any increase in the PPI will be fully reflected into an equivalent and automatic adjustment of the relevant ex-refinery price. Once the ex-refinery price has converged to the PPI level, any decrease in the PPI will be fully passed through into the ex-refinery price. However, for products with an ex-refinery prices lower than the PPI, the PPI declines will not be passed through into the ex-refinery price.

20. The **treasury payment period** consists of the time-lag between the date in which the budget general direction (DGB) certify the payment order (*visa de la journée comptable*) and the date the payment is effectively made by the Treasury.

C. Reporting Requirements

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

(a) the comprehensive monetary survey, the central bank balance sheet, and the consolidated balance sheet of the commercial banks (electronic file);

(b) the net financial position of the central government (PNG) with the BEAC and the banking system, with separate lines for (i) the balance on the account of the Fund for Future Generations and (ii) the outstanding amount of government securitized domestic debt purchased by the banks from commercial creditors (electronic file);

(c) the central government financial operations (*opérations financières de l'Etat)* on a payment order basis (*ordonnancements*), identifying any discrepancy between the fiscal deficit and changes in domestic and external arrears and in the treasury float, on the one hand, and total net domestic bank/nonbank and net external financing, on the other (electronic file);

(d) the detailed breakdown of oil revenue by type of revenue (royalties, profit tax, dividends, boni and other) and by company/type of contract, and the underlying information when available (e.g. production, prices, turnover, costs, etc.), as well as the detailed breakdown of non-oil tax revenue (by type of tax) and nontax revenue (electronic file);

(e) the detailed breakdown of total central government expenditure, on an adjusted commitment basis, adjusted payment order basis, and cash basis as presented in the *Tableau Intégré* produced by the Statistical Committee (*Comité statistique*) (electronic file);

(f) the details for domestic and external debt-service obligations, on a contractual and actual payments basis, respectively, with a breakdown into interest and principal and by creditor, as well as any possible accumulation of domestic or external arrears (electronic file);

(g) the details on the stock of external and domestic debt at the end of each quarter prepared by the DGCP. The external debt stock is to be evaluated at end-of-quarter exchange rates (electronic file);

(h) the details for the outstanding stock of the treasury float (month to month) and the cumulative flows from January 1, 2007; the net accumulation of new float during 2007, defined in paragraph 6 as the difference between payment orders (*ordonnancements*) and payments made (cash basis), as well as the repayment of pre-2007 float, with both items to be broken down by wages and salaries, goods and services, transfers and subsidies, interest, capital expenditure, and net lending; any stock-flow adjustment not consistent with flows should be explained (electronic file).

(i) information on the balance of the accounts relating to treasury correspondents (*correspondants du Trésor*), local governments (*collectivités locales*), and other treasury financial operations specified in the TOFE.

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

(k) actual disbursements on external debt, including on newly contracted loans, by creditors and by projects/programs and the amounts of debt relief, if any, granted to Gabon by external creditors (electronic file);

(l) monthly information on the oil sector: export prices, effective exchange rate, production per oil field, volume of exports and volumes provided to SOGARA based on data from the Direction Générale des Hydrocarbures (electronic file);

(m) quarterly information on number of forestry permits with tax arrears returned to the public domain, number of outstanding forestry permits with tax arrears, forestry tax arrears recovered and forestry tax arrears outstanding;

(n) quarterly report on numbers and value of procurement contracts treated by the Direction Générale des Marchés Publics (DGMP) by type of contracting;

(o) indicators and other statistical data on recent economic developments, such as the household consumer price index, merchandise imports and exports (in value and volume terms) by major categories on the basis of customs data, timber production and exports by categories (in value and volume terms), as well as the quarterly reports on economic activity prepared by the General Directorate of the Economy (DGE) and six-monthly report of the balance of payments by the BEAC;

(p) quarterly data on the finances of local authorities; and

(q) a status report on the implementation of the structural reforms specified in Table 2 attached to the letter of April 15, 2007.

22. The Technical Support Unit of the Interministerial Committee for Monitoring the Structural Adjustment Program will provide the African Department of the IMF with any other information that the latter may deem necessary or that may be requested by the staff of the IMF for the effective monitoring of the program.

Appendix II. Assessing External and Public Sector Debt Sustainability

1. **Staff analyzed the sustainability of Gabon's external and public sector debt using the debt sustainability framework for market-access countries.** This framework focuses on debt-to-GDP ratios as indicators of solvency. Stable or declining ratios are taken as evidence that the current account or budgetary surpluses are adequate to cover future debt service, and thus the solvency condition is met. The analysis undertaken compares base-line projections with an "unbiased" scenario where all variables are assumed to evolve in line with historical averages. Furthermore, it subjects the results of the baseline scenario to a number of stress tests.

2. **Gabon's debt-to-GDP ratio is projected to decline significantly under the baseline scenario and does not present sustainability problems.** At end 2006 the ratio of external debt to GDP stood at 32.5 percent and total gross public debt was estimated at 44.1 percent of GDP. The buoyant outlook for the oil sector permits the amortization of this debt without the need for new borrowing. Gross public debt would fall to 10 ½ percent of GDP and external debt to about 8 percent by 2012, under the baseline scenario (Tables 1 and 2).

3. **The scenarios based on "historical averages" and the standard stress tests confirm the conclusions of the baseline scenario** (Tables 1 and 2 and Figures 1 and 2). The projections under the historical scenarios differ from the baseline in three respects: a lower average annual GDP growth of 0.8 percent, a lower primary surplus in every projection year, and a current account surplus lower than in the baseline up to 2010 reflecting the much lower oil prices in years prior to 2005. With international oil prices likely to stay high—the baseline is based on WEO projections—the latter assumption appears unrealistic. Even under the unfavorable "historical averages" assumptions, the public sector debt ratio would gradually decline to about 32 percent of GDP in 2011 and stabilize at that level. External debt would hover at about 30 percent up to 2010 and then decline to about 15 percent by 2012, reflecting higher repayments of external debt and lower accumulation of foreign reserves. Even under standard stress tests, the projected level of external debt would remain below the critical range of 40-60 percent of GDP above which the probability of a crisis typically becomes significant. However, staff calculations show that a decline in oil-price of 38 percent from the baseline scenario would eventually lead to the emergence of fiscal and external financing gaps and trigger a dynamics of increasing debt.

Table 1. Gabon: External Debt Sustainability Framework, 2002-12
(Percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Debt-stabilizing non-interest current account[6]
Baseline: External debt	63.0	55.9	49.8	39.1	32.5	**27.6**	**21.3**	**16.2**	**13.3**	**10.4**	**7.9**	**-1.3**
Change in external debt	0.0	-7.1	-6.2	-10.6	-6.6	-4.9	-6.3	-5.1	-2.9	-2.8	-2.5	
Identified external debt-creating flows (4+8+9)	-11.0	-21.6	-21.9	-24.9	-18.8	-16.9	-17.9	-17.3	-14.8	-10.8	-6.7	
Current account deficit, excluding interest payments	-10.4	-12.7	-12.7	-21.2	-20.3	-18.6	-18.1	-15.7	-13.6	-9.6	-5.4	
Deficit in balance of goods and services	-19.2	-24.3	-29.5	-39.6	-36.7	-31.7	-32.2	-30.5	-27.5	-23.0	-19.4	
Exports	53.6	55.3	61.5	67.4	65.4	62.5	62.8	61.5	59.4	56.3	53.2	
Imports	34.3	31.1	32.0	27.8	28.7	30.8	30.6	31.0	31.9	33.3	33.8	
Net non-debt creating capital inflows (negative)	-1.2	-0.6	-2.9	3.2	3.2	1.7	-0.1	-1.8	-1.5	-1.5	-1.4	
Automatic debt dynamics[1]	0.6	-8.4	-6.3	-6.8	-1.7	0.0	0.3	0.2	0.3	0.3	0.1	
Contribution from nominal interest rate	3.5	3.2	2.4	1.7	1.9	1.7	1.4	1.1	0.8	0.6	0.5	
Contribution from real GDP growth	0.2	-1.3	-0.6	-1.2	-0.4	-1.7	-1.1	-0.9	-0.5	-0.4	-0.3	
Contribution from price and exchange rate changes[2]	-3.1	-10.3	-8.1	-7.3	-3.2	...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3)[3]	11.0	14.6	15.8	14.3	12.2	12.0	11.5	12.2	11.9	8.0	4.2	
External debt-to-exports ratio (in percent)	117.6	101.1	80.9	58.0	49.8	44.2	33.9	26.3	22.3	18.6	14.9	
Gross external financing need (in billions of US dollars)[4]	0.0	-0.2	-0.3	-1.3	-1.3	-1.2	-1.3	-1.1	-1.1	-0.7	-0.2	
in percent of GDP	0.5	-3.6	-4.4	-15.5	-13.6	-11.7	-11.6	-9.6	-9.3	-5.3	-1.6	
Scenario with key variables at their historical averages[5]						**31.1**	**30.6**	**29.7**	**28.3**	**22.9**	**13.6**	**1.0**
Key Macroeconomic Assumptions Underlying Baseline												
Real GDP growth (in percent)	-0.3	2.5	1.3	3.0	1.2	5.6	4.2	4.3	3.5	2.8	3.0	
GDP deflator in US dollars (change in percent)	5.2	19.6	16.9	17.2	8.8	0.4	5.0	1.4	0.0	-0.7	-0.2	
Nominal external interest rate (in percent)	5.8	6.2	5.1	4.2	5.3	5.7	5.6	5.3	5.2	5.0	4.4	
Growth of exports (US dollar terms, in percent)	-4.8	26.6	31.6	32.5	6.7	1.3	10.0	3.6	0.0	-3.4	-2.9	
Growth of imports (US dollar terms, in percent)	9.0	11.0	22.0	5.0	13.5	13.8	8.7	7.1	6.7	6.4	4.3	
Current account balance, excluding interest payments	10.4	12.7	12.7	21.2	20.3	18.6	18.1	15.7	13.6	9.6	5.4	
Net non-debt creating capital inflows	1.2	0.6	2.9	-3.2	-3.2	-1.7	0.1	1.8	1.5	1.5	1.4	

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

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

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

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

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

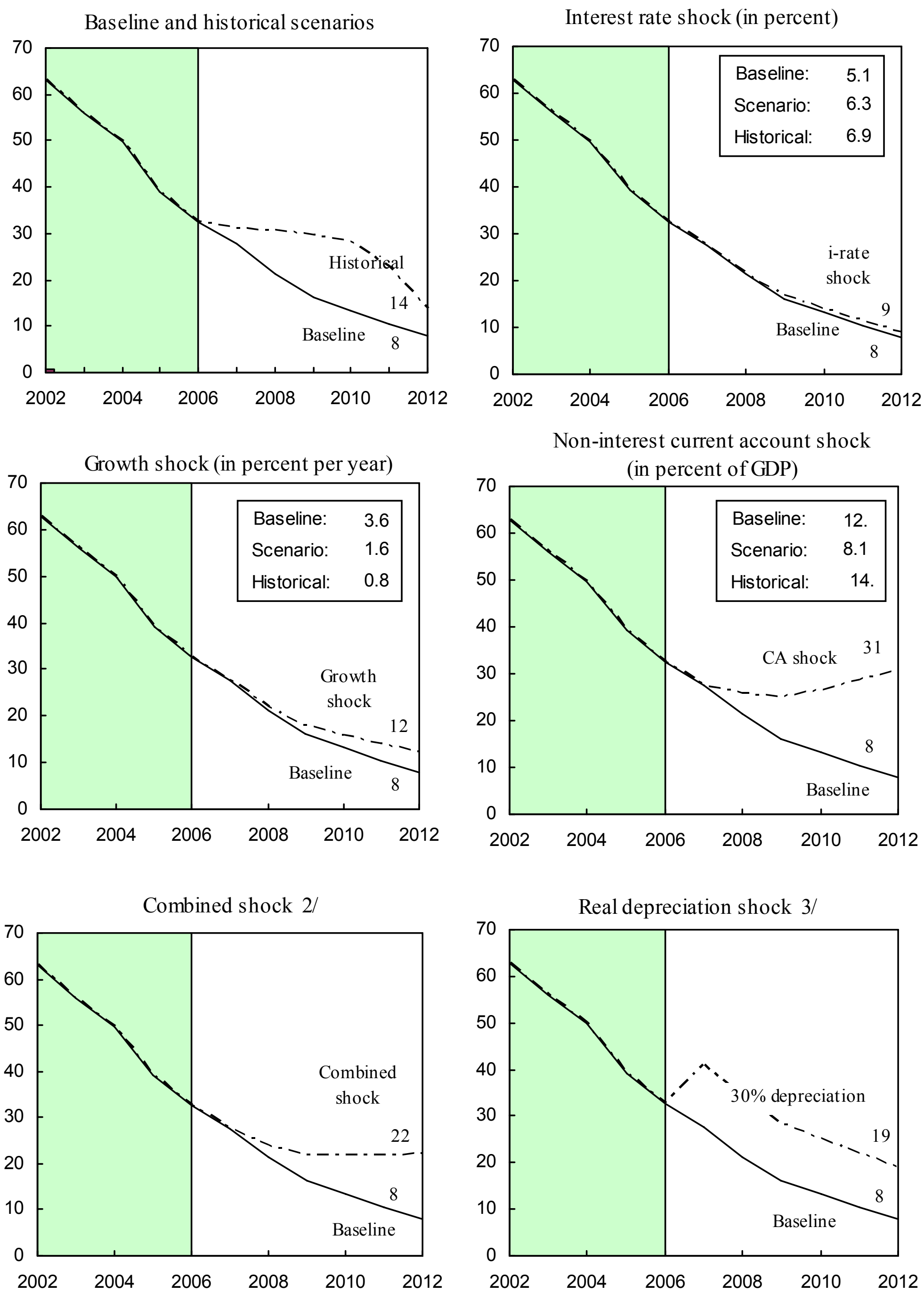
[6] Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

Table 2. Gabon: Public Sector Debt Sustainability Framework, 2002-12
(Percent of GDP, unless otherwise indicated)

	Actual					Projections						
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Debt-stabilizing primary balance[9]
Baseline: Public sector debt[1]	104.9	90.2	76.9	57.1	44.1	**36.7**	**27.5**	**20.4**	**16.6**	**13.4**	**10.5**	**0.3**
o/w foreign-currency denominated	58.4	51.4	46.1	41.1	30.9	27.7	21.5	16.3	13.4	10.5	8.1	
Change in public sector debt	3.0	-14.7	-13.4	-19.7	-13.1	-7.4	-9.2	-7.1	-3.8	-3.2	-2.9	
Identified debt-creating flows (4+7+12)	-9.8	-19.8	-18.3	-16.4	-14.4	-11.6	-14.5	-13.0	-12.1	-10.6	-11.3	
Primary deficit	-7.9	-11.1	-11.5	-11.4	-11.6	-12.3	-13.2	-13.0	-12.7	-11.3	-11.8	
Revenue and grants	31.7	29.8	30.1	31.4	31.7	31.2	31.0	30.6	30.4	29.2	28.6	
Primary (noninterest) expenditure	23.8	18.8	18.6	20.0	20.1	19.0	17.8	17.6	17.7	17.9	16.8	
Automatic debt dynamics[2]	-1.8	-8.7	-6.8	-5.0	-2.8	1.1	-1.3	0.0	0.6	0.7	0.5	
Contribution from interest rate/growth differential[3]	4.9	1.6	-2.5	-10.3	-2.5	1.1	-1.3	0.0	0.6	0.7	0.5	
Of which contribution from real interest rate	4.6	4.1	-1.4	-8.3	-1.9	3.5	0.1	1.1	1.2	1.1	0.8	
Of which contribution from real GDP growth	0.3	-2.5	-1.1	-1.9	-0.6	-2.4	-1.4	-1.1	-0.7	-0.5	-0.4	
Contribution from exchange rate depreciation[4]	-6.8	-10.3	-4.2	5.3	-0.3	...	...	...	...	...	...	
Other identified debt-creating flows	-0.1	0.0	0.0	0.0	0.0	-0.4	0.0	0.0	0.0	0.0	0.0	
Privatization receipts (negative)	-0.1	0.0	0.0	0.0	0.0	-0.4	0.0	0.0	0.0	0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes (2-3)[5]	12.8	5.2	5.0	-3.3	1.3	4.1	5.3	5.9	8.3	7.4	8.4	
Public sector debt-to-revenue ratio[1]	330.8	302.3	255.3	182.1	139.1	117.3	88.7	66.6	54.6	46.0	36.7	
Gross financing need[6]	3.4	1.3	0.7	-0.5	-1.3	-2.9	-5.0	-5.3	-7.1	-6.5	-7.6	
in billions of U.S. dollars	0.2	0.1	0.0	0.0	-0.1	-0.3	-0.6	-0.6	-0.9	-0.8	-1.0	
Scenario with key variables at their historical averages[7]						**38.7**	**35.0**	**32.3**	**32.5**	**31.8**	**32.4**	**-0.3**
Scenario with no policy change (constant primary balance) in 2007-12						**37.4**	**29.7**	**24.1**	**21.5**	**18.3**	**15.5**	**0.2**
Key Macroeconomic and Fiscal Assumptions Underlying Baseline												
Real GDP growth (percentage change)	-0.3	2.5	1.3	3.0	1.2	5.6	4.2	4.3	3.5	2.8	3.0	
Average nominal interest rate on public debt (in percent)[8]	4.3	3.9	4.7	4.4	4.5	4.8	5.0	5.3	5.7	5.5	5.3	
Average real interest rate (in percent)	4.5	4.0	-1.6	-12.6	-3.5	7.9	0.5	4.3	6.2	7.0	6.4	
Nominal appreciation (in percent)	11.5	20.7	9.1	-11.6	0.8	...	...	...	...	...	...	
Inflation rate (GDP deflator, percentage change)	-0.2	-0.1	6.3	17.0	7.9	-3.1	4.6	1.0	-0.6	-1.5	-1.1	
Growth of real primary spending (deflated by GDP deflator, in percent)	8.1	-19.1	0.2	10.6	2.2	-0.6	-2.1	3.2	4.2	3.9	-3.3	
Primary deficit	-7.9	-11.1	-11.5	-11.4	-11.6	-12.3	-13.2	-13.0	-12.7	-11.3	-11.8	

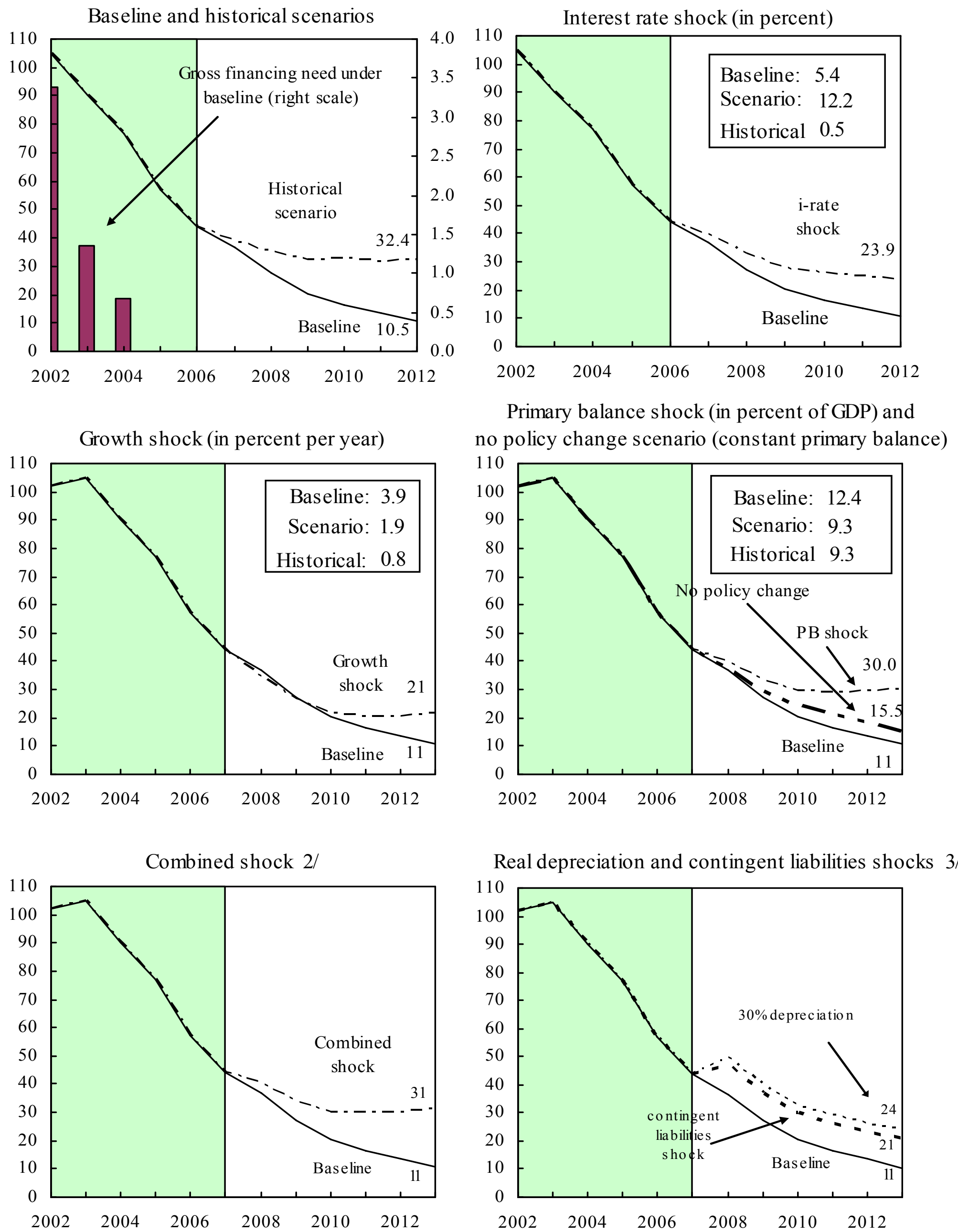
1 Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.
2 Derived as [(r - p(1+g) - g + ae(1+r)]/(1+g+p+gp)) times previous period debt ratio, with r = interest rate; p = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).
3 The real interest rate contribution is derived from the denominator in footnote 2/ as r - π (1+g) and the real growth contribution as -g.
4 The exchange rate contribution is derived from the numerator in footnote 2/ as ae(1+r).
5 For projections, this line includes exchange rate changes.
6 Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period.
7 The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP.
8 Derived as nominal interest expenditure divided by previous period debt stock.
9 Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

Figure 1. Gabon: External Debt Sustainability: Bound Tests[1]
(External debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.
3/ One-time real depreciation of 30 percent occurs in 2007.
4/ Gross Financing needs were/are negative for the period shown

Figure 2. Gabon: Public Debt Sustainability: Bound Tests 1/
(Public debt in percent of GDP)



Sources: International Monetary Fund, Country desk data, and staff estimates.
1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.
2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.
3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2007, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

Annex I. Relations with the Fund

(As of February 28, 2007)

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	191.90	124.37
Reserve position in Fund	0.24	0.16

III. SDR Department:	SDR Million	%Allocation
Net cumulative allocation	14.09	100.00
Holdings	1.89	13.41

IV. Outstanding Purchases and Loans:	SDR Million	%Quota
Extended arrangements	1.38	0.89
Stand-By Arrangements	36.46	23.63

V. Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	May 28, 2004	July 31, 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				
	2007	2008	2009	2010	2011
Principal	1.38	20.83	15.62	0.00	0.00
Charges/Interest	1.91	2.20	1.11	0.54	0.52
Total	3.29	23.03	16.73	0.54	0.52

VII. Implementation of HIPC Initiative: Not Applicable

VIII. Safeguards Assessments:

Under the Fund's safeguards assessment policy, the *Banque des Etats de l'Afrique Centrale* (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 participates in a currency union with five other member of the CEMAC and has no separate legal tender. The common currency of the union, the CFA franc, 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 12-month cycle.

(b) The last consultation was concluded by the Executive Board on June 5, 2006.

XI. FSAP Participation:

Gabon participated in the FSAP and, in this connection, a joint Fund/World Bank mission visited Libreville in 2001 and 2006. The FSSA reports were discussed by the Executive Board in March 2002 and July 2006.

XII. Technical Assistance:

Department	Purpose	Time of Delivery
FAD	Fiscal ROSC	Mar./Apr. 2006
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
FAD	Poverty and social impact analysis of fuel subsidies reform	January 2007

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.

Annex II. Relations with the World Bank

(Updated as of March 31, 2007)

1. Gabon is a resource rich country with a small, highly urbanized population. As one of Africa's few IBRD countries, Gabon's GNI per capita is estimated at US$4,130 in 2004, 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 for the development of the private and forestry sectors, to assist in the development of the local private sector in urban areas; and to supported the implementation of the Government's Poverty Reduction Strategy .

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 and 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$15 million Natural Resources Management Development Policy Loan was approved in November 2005, a US$25 million Public Investment Program for Local Infrastructure Development was approved by the Bank's Board in March 2006, and a US$25 million Infrastructure Project is planned in FY08. Each operation places emphasis on improving transparency and efficiency in the 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$32.5 million in the oil, gas, electricity and telecommunications sectors, and the World Bank Group's Foreign Investment Advisory Services (FIAS) has completed a diagnostic study of the investment climate in late 2004. 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 collaboration 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, effective and efficient public resources management (MTEF), 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
Public Financial Management review	World Bank
Tax administration & Fiscal ROSC	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, environment, fisheries, mining/oil	World Bank/IMF
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 supported the completion 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). In summer of 2005, the Bank provided financial and technical assistance to undertake key household surveys (using a Core Welfare Indicators Questionnaire (CWIQ)) to update key social indicators to be monitored on an annual basis. Results of the CWIQ household survey are now available and had been used in finalizing the GPRSP. 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 based on the expenditure module of the CWIQ survey has been completed by the Bank in December, 2005. This assessment will provide the basis for regular monitoring of the poverty trends in Gabon. Together with the programs and sectoral

strategies 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. Forest and other natural resources. In November 2005, the Bank's board approved a $15 million Natural Resources Management Development Policy Loan which covers the forest, environment, fisheries, and mining/oil sectors. In the oil sector, this DPL is limited to supporting the implementation of the EITI. In March 2006, the Board also approved a $10 million grant from the Global Environment Facility for Gabon's national parks. The DPL focuses on improving transparency, law enforcement, and removing policy distortions. It is also designed to help the Gabonese authorities implement reform programs and empower civil society organizations and local communities in managing natural resources. The project outcomes are expected to broaden the number of beneficiaries and raise social and environmental standards in the forestry, fishing and mining sectors, and thus assisting the government in its efforts to diversify the Gabonese economy and reduce its dependence on the oil sector.

8. In June 2004, the Bank completed a US$7 million Pilot Community Infrastructure Development Project (Learning and Innovation Loan) designed to test new methods for building community-based infrastructure and providing support for local contractors. The goal was to improve living conditions in selected poor urban neighborhoods in a sustainable way and with substantial community participation. The project also aimed at building local capacity to undertake a larger program of community-based public works. Based on this successful initiative, the Bank approved on March 14, 2006 a US$25 million loan to (1) increase access of the population living in low-income settlements to basic services; and (2) sustain access of local SMEs to civil works and construction contracts with the public sector. The project is likely to increase access of the poor to infrastructure and services, strengthen the role of SMESs, and improve the quality of public works through increased transparency, and efficient procurement and contract management."

9. A combined Public Expenditure Review/Country Financial Accountability Assessment/Country Procurement and Audit Review was completed end 2006. 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. As part of the public finance management reforms, the Bank is leading the multi-donor assistance to help authorities develop and implement a medium term expenditure framework (MTEF).

10. 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. Under this program, a diagnostic of the investment climate, including identification of priorities for reform and concrete recommendations, was completed in September 2004. The authorities held a validation workshop in February, 2005 to discuss the recommendations and establish an action plan for their implementation. Two further studies were envisioned to identify constraints to private investment and to provide an action plan to remedy impediments to private sector growth, including a detailed review of administrative barriers to investment and an in-depth

review of the tax and incentive regime (also with an objective of proposing concrete reforms/changes), respectively. Each study is to be confirmed based on action taken on the previous one.

11. 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

12. While the Bank has taken the lead 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.

13. 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.

14. 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.

15. In addition, the IMF is following closely 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.

16. **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.

Annex III. Statistical Issues

1. Gabon's economic database is fairly comprehensive. While data compilation generally follows international methodologies, 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'Économie*, 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'Économie*, 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 on the Fund's Dissemination Standards Bulletin Board on October 1, 2002.Contrary to expectations, Gabon has not updated this information at least once a year. Except for consumer prices, the authorities do not report any real sector statistics for publication in *International Financial Statistics (IFS)*, nor any 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 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 expenditure survey from 1975 and attach a large weight to food and basic consumer goods prices.

Government accounts

6. A key shortcoming is the limited coverage of fiscal data, as no estimates of the consolidated general government are reported to STA; 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 96 percent of notes in Gabon are nationally issued; the remaining are from Cameroon, the Republic of Congo, and Equatorial Guinea. Gabon exports about 15 percent of its notes, most of which go to Cameroon (10 percent) and to the Republic of Congo (3 percent).

9. The monetary and financial statistics mission that visited BEAC headquarters in 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. The new page for CEMAC was published in the January 2003 issue of *IFS.*

10. 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. Priorities for Gabon include the need to (1) adapt the bridge table linking bank data with the monetary statistics to the new format for monthly reporting by the banks; (2) implement the accrual recording of interest on loans, and (3) revise the sectorization of public entities.

External public debt

11. 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

12. Balance of payments data are usually disseminated with considerable delays, although some progress has been made recently with the transmission of data up to 2005. As in most other countries of CEMAC, balance of payments data are compiled and disseminated by the national agency of BEAC. 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.

13. Since 1995, the dissemination of balance of payments statistics has been in accordance with the fifth edition of 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 banknote movements between Gabon and other BEAC countries.

14. 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 April 9, 2007)

	Date of latest observation	Date received	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of publication[6]
Exchange Rates	n/a	n/a	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	1/31/07	3/23/07	M	M	M
Reserve/Base Money	1/31/07	3/23/07	M	M	M
Broad Money	1/31/07	3/23/07	M	M	M
Central Bank Balance Sheet	1/31/07	3/23/07	M	M	M
Consolidated Balance Sheet of the Banking System	1/31/07	3/23/07	M	M	M
Interest Rates[2]	Jan. 2007	2/26/07	M	M	M
Consumer Price Index	Feb. 2007	3/19/07	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	1/31/07	3/19/07	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	1/31/07	3/19/07	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	12/31/06	2/19/07	Q	Q	I
External Current Account Balance	12/31/05	09/26/06	A	I	A
Exports and Imports of Goods and Services	12/31/05	09/26/06	M	M	I
GDP/GNP	2005	1/18/07	A	I	A
Gross External Debt	12/31/06	2/19/07	Q	I	I

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

Statement by the IMF Staff Representative
May 7, 2007

1. This statement provides information that has become available since the circulation of the staff report. It does not alter the thrust of the staff appraisal.

2. **Non-oil growth remained buoyant during the first quarter of 2007.** Production and exports in the timber and mining sectors, as well as in services, have been particularly strong and, if maintained, could raise non-oil GDP growth in 2007 above program projections of 5¾ percent. At the same time, 12-month inflation at end-March reached 6¼ percent, a slight decline from end-December.

3. **Oil production during the first quarter of 2007 remained below expectations**. This trend, which started in 2006, would need to reverse if program projections for the full year are to be attained. However, the renewed rise in international oil prices buoyed exports receipts and fiscal oil revenue, which reached targeted levels.

4. **Monetary developments are consistent with the robust economic expansion**. International reserves at the regional central bank have continued to increase and commercial banks' credit to the private sector expanded by 43 percent in the year ending February 2007, reflecting the strengthening economic prospects for the non-oil sector.

5. **Budgetary developments through February are in line with fiscal consolidation objectives and the non-oil primary deficit remained below expectations**. Both current and capital expenditure were below target, more than offsetting a shortfall in non-oil revenue.

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

Press Release No. 07/88
FOR IMMEDIATE RELEASE
May 7, 2007

International Monetary Fund
Washington, D.C. 20431 USA

IMF Approves Three-Year US$117.3 Million Stand-By Arrangement for Gabon

The Executive Board of the International Monetary Fund (IMF) today approved a three-year SDR 77.15 million (about US$117.3 million) Stand-By Arrangement for Gabon to support the country's economic program. The Gabonese authorities have indicated that they intend to treat the arrangement as precautionary.

Following the Executive Board discussion, Mr. Murilo Portugal, Deputy Managing Director and acting Chairman, stated:

"High oil prices and the favorable global economic environment provide Gabon with an opportunity to address pressing development needs and accelerate economic reforms aimed at reducing the economy's vulnerability to swings in oil prices and preparing it for the post-oil era.

"Building on its Growth and Poverty Reduction Strategy, Gabon's economic program, for which the Fund provides support through a three-year Stand-By Arrangement, rests on three pillars: placing public finances on a permanently sustainable basis; strengthening public financial management, including the administration of oil revenue; and removing structural obstacles to private sector non-oil growth.

"Fiscal adjustment is critical to ensuring that public finances will remain sustainable in the face of historically volatile oil prices and the finite horizon of Gabon's oil reserves. The program envisages a significant step toward fiscal consolidation in 2007. A key measure is the sharp reduction in fuel price subsidies, which became effective in the first quarter of the year, accompanied by an increase in well-targeted spending to mitigate the impact of the reduction in subsidies on the poorest households. Looking ahead, it will be important to ensure that budgetary spending limits for the rest of the year are observed.

"Strengthening public financial management is an essential pillar of the economic reform program. With the objective of raising the quality and effectiveness of public expenditure, measures are underway to improve budget preparation and execution, including by introducing a medium-term expenditure framework and reinforcing public procurement. Important steps are also being taken to strengthen oil revenue administration. Improving public debt and asset management is key to achieving long-term fiscal sustainability. This will require a prudent debt strategy and an effective management of long-term fiscal reserves.

"Private sector development is critical for Gabon's long-term economic prosperity. To that end, the authorities' strategy appropriately focuses on restructuring public enterprises and improving the regulatory framework and the business environment, including by enhancing governance and transparency. The recent publication of Gabon's second EITI report, which expanded its coverage to include both the oil and the mining sectors, represents an important step in this process and the basis for further progress in this area. Strengthening the financial system to improve access to credit by the private sector is also a priority," Mr. Portugal said.

ANNEX

Recent Economic Developments

Against the background of declining oil production, the authorities embarked on a comprehensive economic reform program in 2003. In the context of a 14-month Stand-By Arrangement in 2004-05, they restored macroeconomic stability, eliminated all external payments arrears, and introduced far-reaching structural reforms to foster non-oil growth. The overall fiscal surplus and current account surplus of the balance of payments increased. Expenditure restraint contributed to a significant improvement in the non-oil balance, and the non-oil primary deficit fell to 9 percent of non-oil GDP by 2004, compared to close to 17 percent in 2001-02.

However, with a heavy political agenda in 2005-06 and oil prices setting new records, fiscal discipline proved difficult to sustain and structural reforms stalled. While the overall fiscal surplus and the balance of payments continued to strengthen in response to high oil prices, the non-oil primary deficit widened to 17½ percent of non-oil GDP in 2005, well above the government budgetary target.

Non-oil economic activity strengthened further in 2006, partly in response to the large fiscal stimulus, and inflation also rose from the very low level experienced in 2004-05, reaching 6.4 percent at end-December 2006. But while buoyant oil revenue continued to generate large fiscal surpluses, spending overruns put pressure on the non-oil deficit, which rose to an estimated 18 percent in 2006.

Program Summary

The key objectives of the government's program are to prepare the economy for the post-oil era and to make decisive progress in poverty reduction. To that end, the proposed program will rest on three pillars:

- making significant progress toward a permanently-sustainable fiscal position, with the aim of avoiding harmful, oil revenue-related boom-bust cycles and preparing for the eventual exhaustion of oil reserves;
- strengthening oil revenue administration and public financial management, with the objective of raising the quality and effectiveness of public spending to ensure a higher return on physical infrastructure investment and improve social services;
- removing structural obstacles to private sector-led non-oil growth, by improving the business climate, including through enhanced governance and transparency.

The government's program aims for significant, front-loaded fiscal adjustment, which is needed to put public finances on a more sustainable footing. At the same time, it encompasses a comprehensive strategy to strengthen public financial management, which is critical both to guard against the risk of renewed fiscal slippage and to raise the quality and effectiveness of public spending. And finally, it incorporates an agenda for private sector development, which is essential for long-term, sustainable growth.

Gabon: Selected Economic Indicators, 2004–10

	2004	2005	2006	2007	2008	2009	2010
		Prel.	Est.	Program projections			
	(Annual percent change)						
GDP at constant prices	1.3	3.0	1.2	5.6	4.2	4.3	3.5
Oil	-1.0	-0.4	-8.9	5.3	2.9	3.1	-0.5
Non-oil	2.3	4.3	4.9	5.7	4.7	4.7	4.7
GDP at current prices	7.8	20.5	9.2	2.3	9.0	5.3	2.9
GDP deflator	6.3	17.0	7.9	-3.1	4.6	1.0	-0.6
Oil	15.7	39.7	19.2	-11.6	6.7	-0.5	-1.4
Non-oil	0.5	1.0	4.8	6.1	3.5	2.9	2.2
Consumer prices							
Yearly average	0.4	0.0	4.0	5.5	3.0	2.5	2.0
End of period	-0.5	-0.5	6.4	4.5	2.7	2.3	2.0
External sector							
Exports, f.o.b. (CFA francs)	19.6	35.3	5.9	-2.1	9.8	3.2	-0.6
Of which: oil	16.0	38.5	4.5	-4.7	10.5	2.8	-2.0
Imports, f.o.b. (CFA francs)	7.2	10.3	15.6	15.1	8.5	7.5	7.1
Export volume	4.1	0.8	-9.6	5.5	3.4	3.8	0.1
Import volume	1.3	4.1	10.8	16.4	14.3	13.6	8.6
Terms of trade (deterioration -)	8.6	26.8	12.2	-6.1	11.8	5.1	0.6
Nominal effective exchange rate (- = depreciation)	1.8	-2.9	2.6	...	...	...	...
Real effective exchange rate (- = depreciation)	-1.2	-5.2	7.4	...	...	...	...
Central government finance							
Total revenue	7.2	25.7	10.5	0.4	8.1	4.2	2.2
Oil revenue	7.6	44.4	11.7	-7.4	9.3	1.3	-2.2
Non-oil revenue	6.8	2.6	8.5	14.4	6.2	8.4	8.3
Total expenditure	6.6	21.7	7.8	-4.0	0.8	2.7	2.1
Current	4.6	20.3	4.8	-6.2	0.0	2.1	1.5
Capital	22.4	20.9	23.5	-0.5	3.7	5.3	4.5
	(Change in percent of beginning-of-period broad money, unless otherwise indicated)						
Money and credit							
Net domestic assets	-23.8	-11.9	-3.4	-7.0	-25.1	-22.5	-20.6
Domestic credit	-21.0	-9.7	-2.2	-6.8	-19.6	-21.2	-31.1
Central government	-13.6	-14.2	-11.7	-17.3	-27.0	-28.1	-37.6
Credit to the economy	-6.5	6.6	10.7	10.6	7.7	7.1	6.5
(annual percentage change)	-9.3	11.6	21.3	20.5	14.0	12.3	10.8
Broad money	11.6	26.0	17.4	14.1	8.3	7.7	7.0
Velocity of broad money (non-oil GDP)	3.4	3.0	2.6	2.5	2.5	2.5	2.5
	(Percent of GDP, unless otherwise indicated)						
Nominal GDP (Billions of CFA francs)	3,792	4,571	4,992	5,106	5,565	5,861	6,032
Nominal Non-oil GDP (Billions of CFA francs)	2,091	2,204	2,421	2,713	2,938	3,165	3,386
Central government							
Non-oil primary balance (in percent of non-oil GDP)	-9.1	-17.5	-18.0	-11.6	-10.0	-8.8	-7.4
Augmented non-oil primary balance (in percent of non-oil GDP)[1]	-9.9	-17.8	-19.7	-12.4	-10.0	-8.8	-7.4
Overall balance (payment order basis)	7.6	8.6	9.2	10.0	11.4	11.5	11.5
Overall balance (cash basis)	2.6	7.8	8.6	9.7	11.0	11.2	11.6
Domestic bank financing	-2.3	-2.4	-1.9	-3.3	-5.4	-5.8	-8.1
Net external financing	2.4	-2.0	-3.4	-3.9	-3.9	-4.2	-2.7
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External current account balance (including official transfers)	10.3	19.5	18.4	16.9	16.7	14.7	12.8
External public debt (including the Fund)	49.8	39.1	32.5	27.6	21.3	16.2	13.3
Total gross public debt	76.9	57.1	44.1	36.7	27.5	20.4	16.6

Sources: Gabonese authorities and IMF staff estimates and projections.

[1] The augmented balance includes restructuring costs for public enterprises that are being privatized or liquidated, which are classified below the line.

Statement Laurean W. Rutayisire, Executive Director for Gabon
May 7, 2007

On behalf of my Gabonese authorities, I would like to express my appreciation to Management and staff for their continuous advice and support, particularly, in the design of the comprehensive program of economic and structural adjustment. I would also like to thank staff for their report which describes well the major challenges facing Gabon, and the determined efforts of my authorities to address these challenges.

I. Recent Developments

As Directors would recall, my Gabonese authorities have embarked, since mid-2002, on a fiscal adjustment and reform program, with Fund support. The objectives of this program were to reduce country's dependence on oil through economic diversification, and improve social indicators. The program also included measures to speed up the privatization process, improve governance, and enhance the investment climate. During this period, the authorities implemented successively and successfully a Staff-monitored program (SMP) and a 14-month Stand-By Arrangement (SBA). In particular, macroeconomic stability has been restored and far-reaching reforms were completed.

It should be acknowledged that the successful implementation of this economic program has been possible thanks to a favorable external environment. In particular, the high level of oil prices and the subsequent windfall revenues contributed to finance and advance critical reforms, eliminate domestic and external debt arrears, and accumulate resources in the fund for future generations. In addition, the high oil prices have boosted oil exploration and development of marginal oil fields, which led to a quasi-stabilization of the oil production over the past years.

Since the expiration of the SBA in July 2005, the country went through a transitory period marked by presidential and parliamentarian elections held in December 2005 and December 2006 respectively. Although fiscal policy relaxed to ease strong social pressures and accommodate election-related spending during this period, my authorities remained committed to its reform agenda as demonstrated by the structural reforms accomplished during the period:

1- The Large Taxpayer Unit (LTU), created in 2004, is now operational.

2- A committee comprising representatives of the Ministries of Finance and Oil has been set up in July 2006 to better monitor oil revenues, and to this end, an oil model will be developed with the assistance of an international firm recently recruited on the basis of an international call for tender. A second EITI report, covering broader types of oil revenues and the mining sector has been published last month.

3- My authorities have launched a national initiative called *Gabon – Open Government*, which aims to make available to the general public all important documents of public interest; such as finance laws and related documents, EITI reports, and various audits on the use of budgetary resources.

4- Significant progress has also been made in the privatization program. Notably, the privatization of Gabon Telecom came to a conclusion with the divestment of 51 percent of its capital to Maroc Telecom in February 2007. The liquidation of Air Gabon is proceeding normally with a majority of assets already sold and liabilities being repaid. Its finalization is expected for September 2007. Gabon Poste, the postal company, is also being liquidated and has been replaced by a new public enterprise, La Poste, of a smaller size and with a limited budgetary support.

5- A decree to withdraw with tax arrears dating 2002-2003 has been adopted, effective from April 2007 and the process of withdrawing these permits is in force. Furthermore, the examination by the Parliament of the draft law on the National Forestry Fund has been suspended as it comprises provisions contrary to good budgetary practice.

6- Also, through the elections that were internationally testified as free and fair, Gabon has continued to consolidate its democratization and the building of good governance institutions.

II. Program medium-term objectives and policies for 2007

The medium-term economic prospects for Gabon remain dependent on developments in the oil sector and the outcome of significant projects in the non-oil sector. For the time being, they appear favorable as oil international prices are expected to remain high and non-oil economic activity is projected to remain strong. However, my authorities are fully cognizant that the continued decline in oil production in a context of unreliable oil prices, with an expected depletion of oil reserves over the next 30 years, present a daunting challenge; thus explaining their motivation to keep momentum of reforms to restructure the economy.

Accordingly, the objectives of their program that will cover the period 2007-2010 are to prepare the economy for the post-oil era and make decisive progress in reducing poverty, consistent with their GPRSP. A particular emphasis will be put on bringing the non-oil fiscal deficit in a more sustainable path by the end of the program, through notably a strengthening of the public financial management, and an acceleration of structural reforms to foster private sector development. More specifically, it is my authorities' objective to reduce the non-oil primary deficit to about 6 percent of non-oil GDP by 2011 through a front-loaded fiscal adjustment.

Fiscal policy and reforms

Fiscal policy for 2007 targets a non-oil primary deficit by 6.5 percentage points of non-oil GDP. To this end, my authorities have decided to increase gasoline and diesel petroleum prices by about 25 percent in March 2007. This measure is expected to reduce fuel subsidies by 3 percentage points of the non-oil GDP. It will be complemented with a contraction of 1.5 percentage points of the security and sovereignty spending. The remainder of the adjustment will be achieved through non-oil revenue-enhancing measures and the proceeds of the privatization of Gabon Telecom. The updated tax code, which integrates the changes made in past years, will be presented to Parliament by end-September 2007. In the meantime an inventory of exemptions and tax expenditures is to be carried out by end-June 2007, with the objective to start a thorough reform of these exemptions and tax expenditures in 2008.

My authorities will continue to improve the quality and effectiveness of expenditure management and budgetary processes. To this end, they are preparing a medium-term expenditure framework (MTEF) which is expected to be finalized by end-2007. The aim is to fully integrate the MTEF in the preparation of the 2009 budget. In the meantime, my authorities intend to and include all fiscal-related operations into the budget from 2008 onwards, along with the introduction of the functional classification to better monitor spending in priority sectors.

My authorities are resolved to improve the quality of the investment spending. They will continue to strengthen the functioning of Directorate General of Government Procurement (DGMP). Following the findings of different audits, spending related to the celebrations of Gabon's accession to independence will now be submitted to the normal budgetary procedures. My authorities will ensure that projects related to the celebrations are in line with the GPRSP and the CMDT.

Structural reforms

Along with the strengthening of budget processes, my authorities will redouble efforts to fight misappropriation of public funds and corruption. In particular, the CNLCEI, whose work so far has been concentrated in educating the public and collecting asset statements by senior officials in the civil service, will make a step forward in enforcing asset disclosure by publishing the names of those civil servants that did not submit their declarations by end-June 2007. The Audit Court, the highest fiscal oversight agency, has enhanced its role.

My authorities intend to support the economic diversification through a series of measures aimed at promoting the private sector. In particular, they will further strengthen the financial system, including the microfinance, to increase access to credit. A special emphasis will be put on the improvement of the business climate. Specifically, they will restructure the Private Investment Promotion Agency (APIP) and pursue the work on the harmonization of Gabon law with the provisions of the OHADA to improve enforcement of the acts by the courts. Finally, they will address infrastructure constraints, starting with the port of Owendo, through which 90 percent of Gabon's non-oil trade passes and which constitutes a major obstacle to the country's growth.

My authorities will continue to take a proactive role within CEMAC region to advance issues of regional interest such trade liberalization and BEAC operations.

Debt management strategy

As we have said in previous statements, Gabon, though a middle-income country, however, is also still confronted with social improvement challenges of a magnitude similar to that of low-income countries. Despite higher budgetary allocations to social sectors and efforts to improve the quality of government expenditures, however, my authorities would like to point out that Gabon's debt level is imposing a heavy burden on these efforts to reduce poverty and bring about growth.

My authorities are of the view that a definitive resolution of their debt problem is critical to the success of their development strategy. Since the expiration of the previous arrangement with the Fund in 2005, they have initiated discussions with their external creditors regarding a prepayment deal, with the objective to exiting definitively from vicious circle of debt rescheduling. They are hopeful that an agreement on such a deal is reached soon, in order to create the fiscal space needed to carry on their investment program and make decisive progress towards the MDGs.

Conclusion

Overall, my authorities are determined to pursue sound adjustment policies aimed at restructuring the economy and making it less oil-dependent while further progressing in poverty reduction. To this end, they have developed program featuring a strong fiscal consolidation, a strategy to strengthen public financial management and an agenda for private sector development, covering the 2007 2010 period. Given the ambitiousness of this program, my authorities are requesting Fund assistance in the form of a three-year SBA. As Gabon is currently not faced with a balance of payments needs, my authorities will treat the SBA as precautionary, and I will appreciate Directors' support to my authorities' request.