

Gabon: First Review Under the Stand-By Arrangement and Requests for Waiver of Nonobservance of Performance Criteria and Modification of a Performance Criterion—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Gabon

In the context of the first review under the Stand-By Arrangement for Gabon and its requests for a waiver of nonobservance of performance criteria and modification of a performance criterion, the following documents have been released and are included in this package:

- the staff report for the First Review Under the Stand-By Arrangement and Requests for Waiver of Nonobservance of Performance Criteria and Modification of Performance Criterion, prepared by a staff team of the IMF, following discussions that ended on October 9, 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 December 13, 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 Press Release summarizing the views of the Executive Board as expressed during its December 19, 2007 discussion of the staff report that completed the review and requests.
- 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*

*May also be included in Staff Report

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

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

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
E-mail: publications@imf.org Internet: <http://www.imf.org>

Price: \$18.00 a copy

**International Monetary Fund
Washington, D.C.**

INTERNATIONAL MONETARY FUND

GABON

First Review Under the Stand-By Arrangement and Requests for Waiver of Nonobservance of Performance Criteria and Modification of Performance Criterion

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

Approved by David Nellor and Michael Hadjimichael

December 13, 2007

- **Stand-By Arrangement (SBA):** The three-year arrangement for SDR 77.15 million (50 percent of quota) was approved on May 7, 2007; the authorities intend to treat it as precautionary.
- **Mission:** September 28–October 9 in Libreville. The team met Finance Minister Paul Toungui, Minister of Planning Casimir Oye Mba, Minister of Oil and Mining Richard Onouvié, BEAC National Director Hervé Nze-Nong, other senior officials, and representatives of the business and donor community. The mission issued a press statement.
- **Staff Team:** Mr. Briançon (head), Ms. Fichera, Mr. Iossifov (all AFR), Mr. Leigh (FAD), Ms. Martin (PDR), and Mr. Thiam (resident representative). Mr. Thierry Nguema-Affane (OED) attended the meetings.

Contents	Page
Executive Summary	3
I. Developments and Performance on the Program	4
II. Policy Discussions.....	5
A. Macroeconomic Framework and Risks to the Outlook	5
B. Fiscal Adjustment and the 2008 Budget	6
C. Reinforcing Public Financial Management.....	8
D. Other Growth-Enhancing Reforms	8
E. Program Issues.....	9
III. Staff Appraisal	9
Tables	
1. Selected Economic Indicators, 2005–10.....	11
2. Quantitative Performance Criteria under the SBA 2007–10	12
3. Structural Measures for the First Review of the SBA	13
4. Fiscal Operations of the Central Government, 2005–08	14
5. Public Financial Management—Main Progress and Pending Measures	15
6. Balance of Payments, 2005–10.....	16
7. Monetary Survey, 2004–09.....	17
8. Financial Soundness Indicators for the Banking Sector, 2001–07	18
9. Capacity to Repay the Fund, 2006–12.....	19
10. Indicators of External Vulnerability, 2001–06	20
11. Purchase Schedule and Terms Under the Proposed Stand-By Arrangement, 2007–10	21
Box	
1. Fuel Price Adjustment.....	7
Appendix	
I. Assessing External Sector Debt Sustainability.....	22
Attachment	
I. Letter of Intent.....	28
Annexes	
I. Relations with the Fund	38
II. Relations with the World Bank	40
III. Statistical Issues	45

EXECUTIVE SUMMARY

Economic performance has been satisfactory so far in 2007 and the short-term outlook is positive. Robust non-oil activity supports growth, inflation is moderate, the balance of payments continues to be in surplus, and fiscal consolidation is proceeding. Risks relate to world oil prices, global demand, and controlling government spending.

The program is broadly on track. Quantitative and structural performance criteria and benchmarks for June and September were observed, except for the adjustment of fuel prices, and the end-September ceiling on net bank credit to the government. Fuel prices were kept unchanged to avoid political and social tensions, but will be adjusted in the first quarter of 2008. Net bank credit to the government was higher than targeted, in spite of meeting the fiscal objective, because of an early reduction in government debt to the nonbank sector.

Fiscal performance is satisfactory in 2007 and the draft 2008 budget is aligned with the program in spite of higher fuel subsidies. This was made possible by containing current nonsocial spending. The challenge now is to direct public spending toward investment in infrastructure and targeted social spending, while containing other current outlays.

The authorities are committed to further reform public financial management. The main goals are better monitoring and reporting of oil revenue, better alignment of spending plans with policy objectives, and more competitive public procurement.

The authorities agree that growth-enhancing reforms must be accelerated to make the non-oil economy more competitive. They recognize that recent price controls send a wrong signal to private investors and intend to remove them by year-end. The economy needs also to be opened to greater competition.

Paris Club creditors agreed to Gabon buying back its non-official development assistance debt to improve the country's debt service profile. So, the government issued a US\$1 billion 10-year bullet bond with a 8.20 percent coupon as part of the financing package. The bond was issued in spite of a difficult global financial environment, because it has been agreed with the Paris Club to conclude the buyback before year-end. The overall financing package is estimated to reduce the net present value (NPV) of corresponding debt by 11 percent, although the bond issue was on less favorable terms and the bullet payment implies a large financing need at maturity.

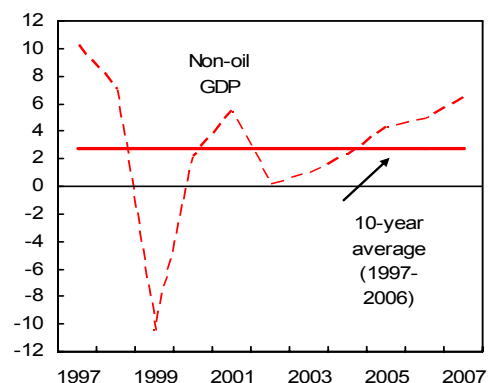
Staff support the authorities' request for waivers and recommend completion of the first review.

I. DEVELOPMENTS AND PERFORMANCE ON THE PROGRAM

1. Satisfactory economic management has underpinned good economic performance in 2007 (Table 1):

- **Activity has been robust in the non-oil sector.** Real non-oil GDP growth could rise to 6.4 percent, 0.7 percent more than projected, boosted by the performance of manganese production, forestry and wood products, and services. This is well above the 10-year average of 2.8 percent.

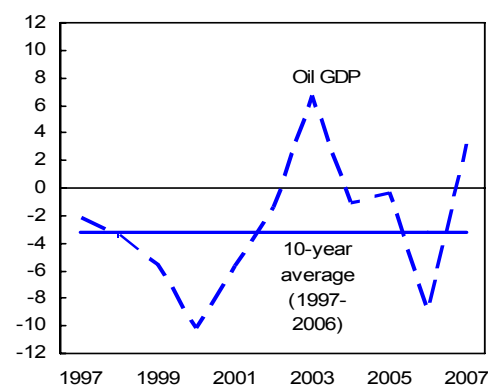
Gabon: Oil and Non-oil Real GDP Growth 1997-2007



- **But oil production has been lower than anticipated.** Continued technical problems have delayed a rebound in production.

- **Inflation is declining.** However, responding to public pressure, in September the government introduced controls on the prices of palm oil, milk, cement, and plywood, which had spiked over the summer.

- **Fiscal consolidation continues.** The target for the non-oil primary fiscal deficit (NOPD) was met in September, with non-oil revenue and spending above projections. Strong non-oil revenue reflected vigorous domestic demand, while spending for wages, goods and services, and fuel subsidies were above projections. A shortfall in oil revenue together with higher than anticipated domestic debt payments led to low fiscal savings.



- **The external current account surplus in 2007 is likely to be smaller than expected, but overall the balance of payments should still record a large surplus.** Higher than expected imports and profit outflows from oil companies are outpacing exports of manganese, timber, and wood products. Even so, the balance of payments surplus is projected at US\$0.5 billion.
- **Rapid expansion of private credit in Gabon prompted the regional central bank, the BEAC, to tighten monetary policy.** In May it raised reserve requirements for banks in Gabon and mopped up excess bank liquidity. Private sector credit growth declined to 22 percent in September (year-on-year).

2. In July Paris Club creditors agreed to a buyback of Gabon's non-official development assistance (ODA) debt at a 15 percent discount in net present value (NPV).

Creditors holding 86 percent of eligible claims—US\$2.3 billion—will participate. Gabon has received a BB– rating from two rating agencies and in December issued a US\$1 billion 10-year bullet bond on the international capital market with a 8.20 percent coupon. The financing package is estimated to reduce the NPV of the corresponding debt by 11 percent, although the bond issue was on less favorable terms because of difficult global financial conditions. The buyback will smooth debt service obligations, although the bullet payment implies a large financing need at maturity.¹

3. **Program implementation has been satisfactory** (Tables 2 and 3). All quantitative and structural performance criteria were observed until end-September, except for the net bank credit to the government at end-September and the implementation of the automatic adjustment formula for fuel prices. The formula was not applied to avoid political and social tensions; but the authorities believed that with more time they would be able to deal with the issue. So they agreed to pass through the increases in international prices recorded since September 2007 by end-March 2008 and apply the pricing formula thereafter. This was made a new performance criterion for end-March 2008. Net bank credit to the government was not met at end-September, even though the target for the primary non-oil deficit was observed, because of early payments of domestic debt to the nonbank sector.

II. POLICY DISCUSSIONS

A. Macroeconomic Framework and Risks to the Outlook

	2005	2006 Prel.	2007		2008	2009	2010
			Prog.	Proj.	Projections		
			(Annual percentage change)				
GDP at constant prices	3.0	1.2	5.6	5.6	4.2	3.8	3.2
Oil	-0.4	-8.9	5.3	3.1	2.4	0.6	-2.9
Non-oil	4.3	4.9	5.7	6.4	4.7	4.8	4.9
GDP at current prices	20.5	9.2	2.3	6.8	9.3	1.8	0.6
CPI (yearly average)	1.2	-0.1	5.5	4.4	3.0	2.5	2.0
			(Percent of GDP)				
Overall fiscal balance (payment order basis)	8.6	9.2	10.0	10.9	11.7	11.3	10.7
Primary non-oil balance	-17.5	-18.0	-11.6	-11.5	-10.0	-8.3	-6.9
External current account balance	19.9	18.0	16.9	13.3	16.1	14.8	12.9
External public debt	39.1	32.5	27.6	26.5	20.9	16.8	14.5
			(Percent of non-oil GDP)				
Non-oil revenue and grants	23.9	23.5	24.2	25.1	25.1	25.1	25.4
Current Expenditure	35.8	34.2	28.6	30.0	26.9	25.2	23.9

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

4. **Notwithstanding some risks, the short-term outlook is positive.** External demand should boost activity in mining, forestry, and wood processing—sectors that are still competitive despite the weakening of the US dollar against the Euro, to which the CFA franc is pegged. Nevertheless, real non-oil GDP growth is likely to decline in 2008 because of fiscal

¹ See the debt sustainability analysis in Appendix I.

tightening and some fall-off from the unusually high growth expected in 2007.² Oil production will increase slightly as small fields come on stream. If fiscal adjustment stays on track, inflation should moderate to 3 percent, the CEMAC convergence criterion. High oil prices and sustained international demand for timber and manganese should support the balance of payments. The main risks to the outlook are a drop in oil prices or a further depreciation of the US dollar—both of which would bring down oil revenue and government savings—a slowdown in the world economy that would lower demand for Gabon’s non-oil exports, and an easing of spending controls, including an increase in fuel subsidy because of further delays in adjusting prices. World food price developments could push up inflation.

B. Fiscal Adjustment and the 2008 Budget

5. **The non-oil fiscal target for 2007 is within reach.** Buoyant receipts from direct taxes and customs, mobile phone licenses, and collection of forestry tax arrears are expected to bolster non-oil revenue. That

should offset higher expenditure, especially for fuel subsidies, if controls over other spending are tightened. High oil revenue will result in a large overall fiscal surplus; but fiscal savings should be less than targeted, because of large payments of domestic liabilities.

	Fiscal Developments in 2007-08					
	September 2007		End 2007		2008	
	Program	Prel. actual	Program	Proj.	EBS07/42	Proj.
	(percent of non-oil GDP)					
Total revenue and grants	42.8	43.4	58.8	62.2	58.6	61.8
Oil revenue	25.3	24.6	34.6	37.0	34.9	36.7
Non-oil revenue	17.5	18.9	24.2	25.1	23.7	25.1
Total expenditure	29.7	31.2	39.7	40.8	36.9	38.4
Current expenditure	21.4	22.2	28.6	30.0	26.4	26.9
Capital expenditure and net lending	6.5	7.0	8.8	8.5	8.4	9.4
Road Fund (FER) and other special funds	1.8	1.9	2.3	2.3	2.1	2.1
Overall balance (on a payment order basis)	13.1	12.2	19.1	21.3	21.7	23.5
Change in arrears	-0.6	-0.6	-0.8	-1.0	-0.9	-0.9
Overall balance (on a cash basis)	12.5	11.7	18.3	20.4	20.8	22.6
Non-oil primary balance	-9.1	-9.0	-11.6	-11.5	-10.0	-10.0
<i>in billions of CFA francs</i>	-246.5	-243.5	-314.1	-311.4	-293.8	-292.6

Sources: Gabonese authorities and IMF estimates

6. **The draft 2008 budget reflects the authorities’ commitment to gradually adjust the fiscal stance toward long-term sustainability.** In line with the program, the draft budget targets an NOPD of 10 percent of non-oil GDP, which would be a step toward a sustainable NOPD (estimated to be 6 percent of non-oil GDP). The fiscal surplus is projected to be 11.5 percent of GDP, taking into account high oil revenue. Non-oil revenue would remain at 25.1 percent of non-oil GDP, much higher than in the initial program, reflecting strengthened tax administration, and additional revenue from phone licenses and tax arrears clearance (0.7 percent of non-oil GDP). Primary spending is kept constant in real terms but declines relative to GDP. The wage bill accommodates promotions and limited hiring in the social sectors, but no general pay hike, while the investment budget was raised to accommodate foreign-financed infrastructure projects. Fuel subsidies will decline slightly to 1.8 percent of non-oil GDP in 2008—considerably lower than the 4.2 percent in 2006—with fuel prices being adjusted by March 2008 and the pricing formula applied thereafter (Box 1). In addition,

² The large Belinga iron ore mining project is not reflected in the projections. It will be discussed in the context of the 2008 Article IV consultation.

staff urged the authorities to carefully assess the costs, financing modalities, and budgetary impact of a new social and universal health insurance before making it operational.

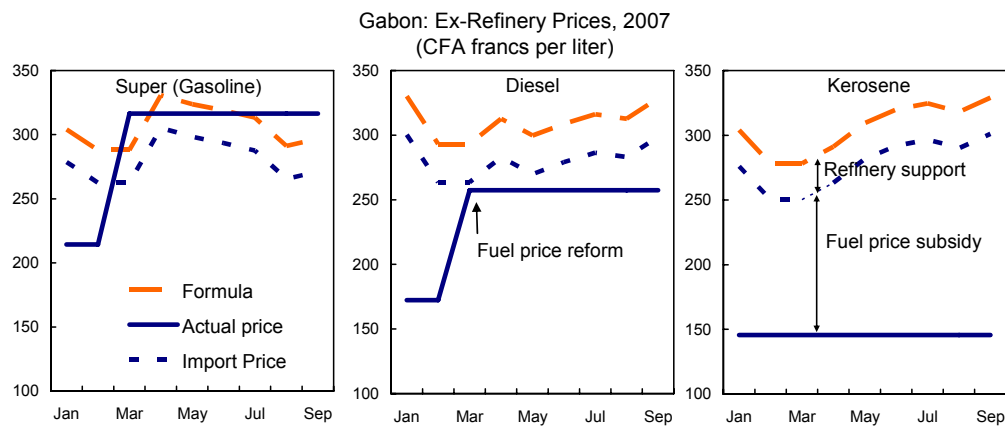
Box 1: Fuel Price Adjustments

In March 2007 increases in retail prices for diesel and gasoline averaged 26 percent, reducing the gap between domestic and world market prices. The government alleviated the impact on the poor by implementing targeted measures recommended by a Fund mission that undertook a poverty and social impact analysis.

The pricing formula involves passing monthly changes in international prices through to domestic pump prices. If international prices decline, however, pump prices will fall only when the subsidy has been cancelled out. Last May the authorities also separated production support to the refinery from compensation for fuel price controls in the pricing formula. They envisage removing the production support from the formula and replacing it with an explicit budget subsidy.

Retail Fuel Prices in Selected African Countries, September 2007
(In CFA francs per liter)

Country	Super	Diesel	Kerosene
Cameroon	584	535	365
Congo	495	345	270
Cote d'Ivoire	615	545	470
Gabon	595	470	245
Senegal	694	606	540



7. **Staff encouraged the authorities to set strict guidelines for new borrowing.** The authorities stressed that building infrastructure is essential to improve growth prospects but recognized that greater attention should be paid to debt sustainability before contracting new loans. They also agreed that foreign-financed projects should be aligned with the priorities of their poverty reduction strategy, consistent with general fiscal objectives, and reflected in annual budgets.

C. Reinforcing Public Financial Management

8. **The authorities are committed to pressing ahead with PFM reforms.** To enhance the transparency and effectiveness of government action, their priorities are to improve budget preparation and execution, strengthen revenue administration, and raise the quality and efficiency of public spending.³ Work has started on a sectoral medium-term expenditure framework reflecting PRSP priorities. The authorities noted that budget procedures have improved, although they recognized that more time is needed to achieve reform objectives. Staff pointed out that close monitoring and follow-up are essential to enhance the credibility of reforms.

9. **Regarding oil revenue transparency, discussions focused on explaining the differences between the data for 2005 that were given to staff and those in the EITI report.** The authorities gave four reasons for why the oil revenue figures provided to staff were 2.9 percent of non-oil GDP lower than those reported to the EITI: (i) EITI dollar figures were converted in CFA franc at period average exchange rates, while government oil revenues are actual treasury receipts in CFA franc, after payments of high banks' fees; (ii) exclusion from government revenue of checks received from oil companies late in 2005 but cashed in 2006; (iii) contractual requirements for certain oil companies to invest a share of revenue in projects not covered by the budget; and (iv) the value of government oil transferred free of charge to the refinery. Conversely, the EITI report does not cover production by some small companies. To narrow differences, the authorities are working on reducing banks' fees; cashing checks more quickly; and aligning the coverage of the two sets of data. Some of the discrepancies should be resolved in the 2006 EITI report, soon to be published.

D. Other Growth-Enhancing Reforms

10. **Staff urged the removal of the temporary price controls introduced in September,** highlighting the economic distortions of such controls and the need to open to competition sectors dominated by a single enterprise. The authorities explained that the measure was taken to give them time to assess the causes of the recent price hikes, but that price controls would be lifted before year-end.

11. **The resolution of post-privatization issues with Gabon Telecom and the electricity and water company, SEEG, is welcome but has been costly.** Legal challenges to the Gabon Telecom privatization have been dismissed, and the new investor is restructuring the enterprise. However, with the audit of the 2006 accounts lowering the value for the company, the government is discussing way to compensate the investor. Staff urged the authorities to make the audit public and incorporate any government payments into the budget. To relieve SEEG's financial difficulties, the government granted a 15 percent increase in electricity tariffs over 18 months and tax relief on customs duties totaling CFAF 11.6 billion. Staff

³ Table 5 and LOI (¶¶ 14–18).

regretted the granting of tax relief rather than a direct subsidy.⁴ By year-end a commission is to recommend revisions to the 10-year old concession related to tariff setting and investment financing.

E. Program Issues

12. In the attached LOI the authorities request waivers for the nonobservance of the continuous performance criterion on the application of the automatic fuel price adjustment formula and of the ceiling on net bank credit to the government at end-September 2007. The letter also defines quantitative performance criteria and indicative targets for 2008, and updates the structural performance criteria and benchmarks for the second review. The performance criterion on fuel price adjustment has been modified to apply continuously from April 1, 2008. A new performance criterion for end March requires that ex-refinery fuel prices reflect large import price changes recorded since end-September. Two benchmarks have been added for April 2008. They relate to finalization of the audit of the oil refinery and preparation of an action plan and a cost estimate for the new social and health insurance scheme.

III. STAFF APPRAISAL

13. **Implementation of the medium-term program supported by the Stand-By Arrangement is satisfactory.** Non-oil growth is higher than expected, inflation is subsiding, and the balance of payments continues to generate large surpluses. The short-term macroeconomic outlook is also positive

14. **Stronger fiscal discipline is essential to keep the economy stable,** despite buoyant non-oil revenue. In particular, meeting the 2007 fiscal objectives requires tightening controls over current nonsocial spending, especially fuel subsidies. The staff regrets the non-observance of the continuous performance criterion on the activation of the automatic fuel price adjustment mechanism, but welcomes the implementation of corrective measures to preserve the fiscal targets for 2007 and 2008, and the resetting of this performance criterion to March 2008.

15. **Fiscal adjustment must continue to be the cornerstone of the government's efforts to prepare the economy for the time when oil runs out.** The steady decline in oil production will require continued fiscal adjustment to bring the non-oil primary fiscal deficit to a level that is sustainable over the long term. Reactivating the automatic fuel price adjustment formula is crucial to contain fuel subsidies and create fiscal space for spending on social sectors and infrastructure, which will be essential for raising living standards. Staff also urge the authorities to speed preparation of sectoral medium-term expenditure frameworks consistent with their fiscal objectives and PRSP priorities.

⁴ SEEG's finances worsened sharply in early 2007 because of increased reliance on high cost fuel-generated power.

16. **The 2008 draft budget is consistent with the authorities' medium-term program.**

It is designed to reduce the NOPD further, contain subsidies, and increase investment allocations. However, efforts to strengthen PFM by, e.g., making oil revenue collection more transparent and improving the quality of investment and social spending, should be stepped up. Staff supports the establishment of a good health insurance system, but urges the authorities to first assess costs and financing modalities to avoid large charges on the budget .

17. **Far-reaching reforms are needed to improve competitiveness and diversify the economy.**

In particular, strengthening governance and increasing transparency are vital to a better investment climate. Staff welcome the resolution of the problems faced by two large privatized enterprises but regret the granting of tax relief and the additional burden imposed on the budget. They also urge the authorities to publish promptly the audit report on the financial situation of one of the enterprises.

18. **The authorities should promptly lift the recent price controls.** Improving competition would have a more positive impact on prices and on the economy as a whole.

19. **Staff welcomes the improved debt service profile to be achieved by the buyback of Paris Club debt.**

It urges the authorities to strengthen their borrowing policy and debt management, including the submission of debt sustainability analysis to Parliament, together with the draft budget law.

20. **Staff support the authorities' request for waivers for nonobservance of the performance criteria**

on net bank credit to the government at end-September and on the automatic adjustment of fuel prices. They recommend completion of the first SBA review in view of (i) satisfactory fiscal performance through September 2007, in spite of higher fuel subsidies; (ii) observance of all other quantitative and structural performance criteria and benchmarks until end-September 2007, and (iii) the commitment to reduce fuel subsidies through fuel price increases during the first quarter 2008 so as to meet the fiscal target for 2008.

Table 1. Gabon: Selected Economic Indicators, 2005–10

	2005	2006	2007		2008		2009	2010
		Prel.	CR 07/174	Proj.	CR 07/174	Prog.	Projections	
	(Annual percent change, unless otherwise indicated)							
GDP at constant prices	3.0	1.2	5.6	5.6	4.2	4.2	3.8	3.2
Oil	-0.4	-8.9	5.3	3.1	2.9	2.4	0.6	-2.9
Non-oil	4.3	4.9	5.7	6.4	4.7	4.7	4.8	4.9
GDP at current prices	20.5	9.2	2.3	6.8	9.0	9.3	1.8	0.6
GDP deflator	17.0	7.9	-3.1	1.1	4.6	4.9	-1.9	-2.5
Oil	39.7	19.2	-11.6	-1.3	6.7	8.2	-4.5	-4.2
Non-oil	1.0	4.8	6.1	5.4	3.5	3.0	2.6	2.2
Consumer prices ¹								
Yearly average	1.2	-0.1	5.5	4.4	3.0	3.0	2.5	2.0
End of period	1.3	0.4	4.5	4.0	2.7	2.7	2.3	2.0
External sector								
Exports, f.o.b. (CFA francs)	33.2	5.9	-2.1	3.5	9.8	10.8	-1.9	-4.6
Of which: oil	37.9	4.5	-4.7	1.6	10.5	11.3	-3.9	-7.2
Imports, f.o.b. (CFA francs)	15.1	19.0	15.1	18.7	8.5	1.8	1.9	1.8
Export volume	-0.9	-9.7	5.5	3.8	3.4	3.1	1.8	-1.9
Import volume	4.8	12.0	16.4	18.2	14.3	5.5	7.5	3.0
Terms of trade (deterioration= -)	22.4	10.3	-6.1	-0.8	11.8	11.4	1.7	-1.7
Nominal effective exchange rate (depreciation = -)	-2.9	2.6	...	...	...	...	...	...
Real effective exchange rate (depreciation = -)	-5.2	7.4	...	...	...	...	...	...
Central government finance								
Total revenue	22.6	10.5	0.4	6.5	8.1	7.3	0.5	-0.3
Oil revenue	38.2	11.7	-7.4	-0.7	9.3	7.0	-4.3	-7.0
Non-oil revenue	2.6	8.5	14.4	19.2	6.2	7.7	7.7	8.5
Total expenditure	21.7	7.8	-4.0	-1.1	0.8	1.4	1.6	2.5
Current	20.3	4.8	-6.2	-1.4	0.0	-3.3	0.6	1.9
Capital	20.9	23.5	-0.5	-3.4	3.7	18.9	5.0	4.7
Money and credit								
Credit to the economy	11.6	21.3	20.5	20.8	14.0	13.5	12.0	11.1
Broad money	26.0	17.4	14.1	12.2	8.3	10.3	9.8	9.4
Velocity of broad money (non-oil GDP)	3.0	2.6	2.5	2.6	2.5	2.5	2.5	2.4
	(Percent of GDP, unless otherwise indicated)							
Gross national savings	41.1	41.9	...	40.2	...	39.9	39.3	38.6
Government	14.1	15.1	...	17.0	...	17.5	17.2	16.8
Private sector	27.0	26.8	...	23.2	...	22.5	22.0	21.8
Gross fixed investment	21.3	23.9	...	26.4	...	23.8	24.4	25.7
Government	4.2	4.8	...	4.5	...	4.7	4.9	5.1
Private sector	17.1	19.1	...	21.9	...	19.1	19.6	20.7
Central government								
Non-oil primary balance (percent of non-oil GDP)	-17.5	-18.0	-11.6	-11.5	-10.0	-10.0	-8.3	-6.9
Overall balance (payment order basis)	8.6	9.2	10.0	10.9	11.4	11.7	11.3	10.7
Overall balance (cash basis)	7.8	8.6	9.7	10.4	11.0	11.4	11.0	10.8
Domestic bank financing	-2.4	-1.9	-3.3	-3.0	-5.4	-6.3	-5.8	-7.2
Net external financing	-2.0	-3.4	-3.9	-3.7	-3.9	-3.2	-3.9	-2.7
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)	19.9	18.0	16.9	13.3	16.7	16.1	14.8	12.9
External public debt (including to the Fund)	39.1	32.5	27.6	26.5	21.3	20.9	16.8	14.5
Total gross public debt	57.1	44.1	36.7	35.1	27.5	26.6	20.6	17.5
Nominal GDP (CFAF billions)	4,571	4,992	5,106	5,333	5,565	5,828	5,934	5,968
Nominal Non-oil GDP (CFAF billions)	2,204	2,421	2,713	2,717	2,938	2,931	3,152	3,380

Sources: Gabonese authorities, and IMF estimates and projections.

¹ Based on the new Harmonized Consumer Price Index with weights derived from Gabon's 2005 household expenditure survey. Historical data differ from the ones reported in the original program document (Country Report No. 07/174).

Table 2. Gabon: Quantitative Performance Criteria under the SBA 2007-10
(Billions of CFA francs; end-period data; cumulative flows from January 1st) ¹

	2006		Prog.	Actual	Prog.	Sep. Adj.	Actual	Dec. Prog.
	Dec. Prel.	Jun. Adj.						
Performance criteria								
Floor on the primary fiscal balance, excluding oil revenue and restructuring costs (on a payments order basis)	-435.8	-150.4	-162.2	-121.4	-246.5	-255.9	-243.5	-314.1
Ceiling on the net claims of the banking system on the central government ³	-39.6	-112.8	-56.7	-62.8	-106.0	-67.7	-23.9	-191.1
Ceiling on the contracting or guaranteeing of new external debt by the central government ⁴	164.5	140.0	140.0	64.1	155.0	155.0	81.2	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	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	0.0	0.0	0.0
Memorandum items								
Foreign financed projects	63.3	21.0		32.9	30.7		40.1	42.6
Non-project external financing	14.5	0.0		0.0	0.0		0.0	0.0
Oil revenue	1,012.9	463.9		418.7	685.8		667.1	938.0
Privatization receipts	0.0	19.0		13.0	19.0		13.0	19.0
External debt service payments (excluding IMF)	324.6	172.1		165.4	273.4		269.8	327.2
Domestic debt service payments	107.9	91.2		94.4	126.9		138.3	163.0
Public enterprises restructuring costs	39.8	12.9		13.8	17.1		20.3	22.5
Net change in unpaid payment orders at the treasury	-27.8	-10.5		-4.0	-15.8		-13.0	-21.0
Change in outstanding wage arrears (<i>rappels de solde</i>)	-20.6	-10.0		-9.3	-15.0		-17.9	-20.0
Banks' purchases of outstanding government domestic debt (<i>rachat de créances</i>)	...	0.0		14.8	0.0		8.8	0.0

Sources: Gabonese authorities and IMF estimates and projections.

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

² The performance criterion will be adjusted upward or downward for any lower or higher execution of foreign-financed investment. The downward adjustment is capped at CFAF 25 billion.

³ The performance criterion will be adjusted upward or downward for any lower or higher than programmed oil revenue and lower or higher than programmed privatization receipts. It will also be adjusted upward or downward for any higher or lower payments of external debt service net of new external non-project financing, payments of domestic debt service, public enterprises restructuring costs, reduction of unpaid payment orders at the treasury and reductions in *rappels de la solde* are limited to CFAF 5 billion beyond the programmed levels. Finally, the performance criterion will be adjusted upward for any increase in commercial bank credit to the government reflecting new purchases by commercial banks of existing government domestic debt owed to non-banks (*rachat des créances*).

⁴ This performance criterion 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 Executive Board on August 24, 2000, but also to commitments contracted or guaranteed for which value has not been received. The performance criterion will be adjusted upward to include external loans contracted during a debt buyback 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 3. Gabon: Structural Measures for the First Review of the SBA

Test date	Actions	Current situation	PC or Benchmark
	Apply the automatic adjustment formula to ex-refinery fuel product prices to reflect changes in international prices.	Not observed	Continuous PC
	Subject all 2007 capital spending for the <i>fêtes tournantes</i> to regular budgetary procedures.	Observed	Continuous PC
September 15	Strengthen cash management by establishing an annual treasury plan.	Observed	PC
June 2007	Prepare a compilation of all tax expenditures.	Observed	Benchmark
September 15	Submit to parliament a new tax code, incorporating all the modifications made in recent years.	Observed	Benchmark
June 2007	Publish the names of all government officials who have not complied with the asset disclosure requirement by end-April 2007.	Observed	Benchmark
June 2007	Disseminate key documents of general public interest by posting on the Ministry of Finance website (i) the 2004, 2005, and 2006 supplementary budgets; (ii) the reports of the Audit Court (<i>Cour des comptes</i>) on budget execution in 2003 and 2004; (iii) the reports on the audit of the <i>fêtes tournantes</i> and the arrears of the Road Maintenance Fund (FER) prepared in 2005; and (iv) the annual reports for the CNLCEI for 2005 and 2006.	Observed	Benchmark
June 2007	Adopt a new CPI with weights based on the 2005 household expenditure survey.	Observed	Benchmark

Table 4. Gabon: Fiscal Operations of the Central Government, 2005-08

	2005	2006	2007		2008	
			CR 07/174 ¹	Proj.	CR 07/174 ¹	Proj.
	(Billions of CFA francs)					
Total revenue and grants	1,434.2	1,582.6	1,594.9	1,688.7	1,722.9	1,812.9
Revenue	1,432.2	1,582.6	1,589.5	1,684.7	1,717.5	1,806.9
Oil revenue	907.2	1,012.9	938.0	1,005.5	1,025.6	1,075.7
Treasury receipts	835.2	951.0	905.1	951.5	997.0	1,024.1
SOGARA transfer ²	71.9	61.9	32.9	54.0	28.7	51.5
Non-oil revenue	525.0	569.7	651.5	679.2	691.9	731.2
Foreign grants	2.0	0.0	5.4	4.0	5.4	6.0
Total expenditure (including net lending)	1,041.1	1,122.1	1,076.8	1,109.8	1,085.5	1,125.3
Current expenditure	789.3	827.5	776.3	816.0	776.1	789.1
Wages and salaries	227.8	252.4	294.0	300.9	311.0	311.8
Goods and services	153.2	167.2	180.2	185.5	187.1	182.7
Transfers and subsidies	279.1	291.3	196.2	214.5	183.6	199.1
<i>of which</i> fuel subsidies ²	71.9	102.1	34.6	54.0	28.7	51.5
Interest payments	129.2	116.6	105.8	115.1	94.4	95.5
Domestic	29.3	24.5	18.8	24.8	17.4	17.8
External (excluding IMF)	99.9	92.2	87.0	90.3	77.0	77.7
Capital expenditure	193.4	238.8	237.6	230.8	246.4	274.4
Domestically financed	146.1	190.0	195.0	188.2	197.4	206.4
Foreign-financed investment	47.3	48.8	42.6	42.6	49.0	68.0
Net lending (including equity participation)	5.0	0.0	0.0	0.0	0.0	0.0
Road Fund (FER) and special funds ³	53.4	55.8	63.0	63.0	63.0	61.9
Primary balance (on a payment order basis)	522.2	577.0	623.9	694.1	731.9	783.1
Overall balance (payment order basis)	393.0	460.4	518.1	578.9	637.4	687.6
Non-oil primary balance (payment order basis) ⁴	-385.0	-435.8	-314.1	-311.4	-293.8	-292.6
Change in arrears	-37.3	-33.5	-21.0	-26.0	-25.4	-26.0
<i>of which</i> float (unpaid payment orders at the treasury)	-33.7	-33.2	-21.0	-26.0	-25.4	-26.0
Overall balance (cash basis)	355.7	426.9	497.1	552.9	612.1	661.6
Financing	-355.7	-426.9	-497.1	-552.9	-612.1	-661.6
External (net)	-92.4	-167.9	-197.6	-199.4	-218.2	-189.4
Domestic (net)	-263.3	-259.0	-299.5	-353.6	-393.9	-472.2
Banking system net	-110.6	-97.3	-151.6	-160.2	-301.6	-369.6
<i>of which</i> Fund for Future Generations	-29.3	-35.8	-93.8	-100.6	-102.6	-107.6
Nonbank sources	-152.7	-161.7	-148.0	-193.4	-92.2	-102.5
<i>of which</i> privatization proceeds	0.0	0.0	19.0	13.0	0.0	0.0
	(Percent of non-oil GDP)					
Non-oil revenue and grants	23.9	23.5	24.2	25.1	23.7	25.1
Total expenditure	47.2	46.3	39.7	40.8	36.9	38.4
Current expenditure	35.8	34.2	28.6	30.0	26.4	26.9
Wages and salaries	10.3	10.4	10.8	11.1	10.6	10.6
Purchases of goods and services	7.0	6.9	6.6	6.8	6.4	6.2
Transfers and subsidies	12.7	12.0	7.2	7.9	6.2	6.8
Fuel subsidies	3.3	4.2	1.3	2.0	1.0	1.8
Capital and net lending	9.0	9.9	8.8	8.5	8.4	9.4
Domestically financed	6.6	7.8	7.2	6.9	6.7	7.0
Foreign-financed investment	2.1	2.0	1.6	1.6	1.7	2.3
Road Fund (FER) and special funds	2.4	2.3	2.3	2.3	2.1	2.1
Non-oil primary balance ⁴	-17.5	-18.0	-11.6	-11.5	-10.0	-10.0
GDP at market prices (in billions of CFA francs)	4,571	4,992	5,106	5,333	5,565	5,828
Non-oil GDP at market prices (in billions of CFA francs)	2,204	2,421	2,713	2,717	2,938	2,931

Sources: Gabonese authorities and Fund staff estimates and projections.

¹ Stand-By arrangement; Country Report No. 07/174

² Transfer of crude oil to the refinery SOGARA to compensate it for the difference between international parity prices and the controlled ex-refinery price.

³ The Road Fund and special funds are included in the program fiscal framework but are not part of the annual budget.

⁴ Non-oil revenue (including grants) minus total primary spending.

Table 5 Gabon: Public Financial Management— Main Progress and Pending Measures

	Progress as of end- September 2007	Measures for Q4 2007 and 2008
Budget Preparation and Execution		
Strengthen coordination between ministry of finance (MoF), ministry of planning (MoP) and spending ministries	MoF and MoP joint discussion to establish coherent operational and investment budget envelopes for 2008. Discussions of preliminary priority actions plans by Health, Education, Agriculture and Public Works ministries on which budget spending requests for 2008 have been based.	Review priority action plans to ensure consistency between budget allocations request and PRSP priorities for each sector.
Develop medium term expenditure framework	Training on MTEF model prepared with Assistance from the World Bank and preparation of MTEF for Health, Education, Agriculture and Public Works based on preliminary priority action plans.	Finalize the MTEF model by including MTEFs from all administrations and develop the central macroeconomic framework module that ensures consistency of spending plans with the overall fiscal objective. MTEF to be used for 2009 budget preparation
Functional classification of expenditure	Almost completed	Use functional classification for 2009 budget preparation
Preparation of monthly budget execution reports	No progress.	Adopt new/revise existing software to allows for regular monthly preparation of comprehensive and consistent budget execution reports within a two month lag.
Treasury cash management plan	Completed	Implement the new cash management plan to reduce payment period to 30 days by end 2008 and optimize government liquidity management
Enhance Quality and Effectiveness of Public Expenditure		
Increase share of public contract awarded on competitive basis	69 percent of new public contracts have been awarded on a competitive basis as of end June.	Reduce share of public contract awarded on a single source basis on exceptional ground to below 30 percent by 2008
Publish call for bids on and awards of public contracts	Call for bids published regularly on the web site of the procurement unit of the MoF. Some delays in publishing information on awarded contracts.	Reduce delays and ensure full coverage of web posting of awarded contracts.
Treatment of expenditure for Independence Celebration (<i>Fêtes Touranantes</i>)	Contracts for <i>Fêtes Touranantes</i> submitted to budgetary procedures	Publish on the national press projects selected for the 2008 <i>Fêtes Touranantes</i> , including cost estimates.
Strengthen Revenue Administration, particularly for Oil Revenue		
Enhance transparency of oil revenue	-EITI report for 2005 published. -Contracts for the development of a field by field revenue model based on contract parameters awarded to international consultant.	-Finalization of 2006 EITI report and reconciliation with revenue reported in the budget. - Finalization of the new oil revenue model to be tested on monthly oil revenue payments in 2007.
Assessment and disclosure of tax expenditure	Comprehensive estimate prepared and included in 2008 budget documents	Start examining options for reducing exemptions to prepare a proposal in 2009.
Tax code	Submitted to Parliament	None

Table 6. Gabon: Balance of Payments, 2005–10

	2005 Prel.	2006 Est.	2007	2008	2009	2010
			Projections			
	(billions of CFA francs)					
Current account (including transfers)	908.6	900.1	707.2	936.8	879.8	769.0
Exports, f.o.b.	2979.3	3154.4	3263.9	3617.2	3548.8	3387.0
Oil sector	2479.5	2592.0	2634.2	2932.8	2818.5	2615.0
Other sectors	499.9	562.3	629.7	684.4	730.3	772.0
Imports, f.o.b.	-747.6	-889.6	-1056.4	-1075.1	-1095.4	-1115.2
Oil sector	-209.0	-219.4	-222.0	-220.9	-218.9	-216.1
Non-oil Sector	-538.6	-670.2	-834.4	-854.2	-876.5	-899.1
Trade balance	2231.8	2264.7	2207.5	2542.1	2453.4	2271.8
Services (net)	-1246.2	-1278.4	-1412.3	-1510.7	-1475.4	-1404.0
<i>Of which</i>						
Interest on public debt (net)	-77.2	-91.7	-91.4	-54.5	-30.3	3.2
Profits (net)	-671.9	-593.1	-627.4	-818.3	-798.6	-753.1
Current transfers (net)	-77	-86	-88	-95	-98	-99
Public	2	0	4	6	4	4
Private	-79	-86	-92	-101	-102	-103
Capital account	-809	-710	-459	-518	-485	-285
Capital transfers (net)	4	4	0	0	0	0
Medium- and long-term capital	-343	-290	-188	2	-47	24
Public sector	-121	-170	-204	-189	-233	-160
Drawings (gross)	47	63	43	68	55	58
Amortization (gross)	-168	-233	-247	-257	-288	-218
Direct investment and portfolio investment (net)	-151	-8	41	206	199	193
Other capital inflows (net)	-72	-111	-25	-15	-12	-9
Oil sector	-22	-36	-37	-27	-26	-24
Non-oil sector	9	10	12	13	13	14
Short-term capital	-469	-424	-271	-520	-438	-310
Oil sector	141	10	12	-31	-14	15
Non-oil sector	-462	-260	-283	-488	-423	-325
Errors and omissions	-148	-173	0	0	0	0
Overall balance	100	191	248	419	395	484
Financing	-100	-191	-248	-419	-395	-484
Central Bank, net foreign assets (- = increase)	-172	-191	-248	-419	-395	-484
IMF liabilities (- = increase)	13	7	16	11	0	-6
Purchases (gross)	0	0	0	0	0	0
Repurchases (gross)	13	7	16	11	0	-6
Other net assets (- = increase)	-186	-198	-264	-431	-395	-477
Debt rescheduling	73	0	0	0	0	0
Debt cancellation (and other)	0	0	0	0	0	0
Arrears net (- = reduction)	0	0	0	0	0	0
Other exceptional financing	0	0	0	0	0	0
Financing gap	0	0	0	0	0	0
Memorandum items:	(Percent of GDP, unless indicated otherwise)					
Current account (including official transfers)	19.9	18.0	13.3	16.1	14.8	12.9
Oil	34.2	34.9	33.1	31.9	30.0	27.4
Non-oil	-14.3	-16.9	-19.9	-15.8	-15.1	-14.5
Current account (excluding official transfers)	19.8	18.0	13.2	16.0	14.8	12.8
Capital account	-17.7	-14.2	-8.6	-8.9	-8.2	-4.8
Overall balance	2.2	3.8	4.6	7.2	6.7	8.1
Gross official reserves (Billions of CFA francs)	375	559	823	1,254	1,649	2,126
In months of imports of GNFS	3.4	4.2	5.2	8.1	10.4	13.2
World oil price (U.S. dollars/barrel)	53.4	64.3	68.5	75.0	72.3	70.5
National oil price (U.S. dollars/barrel)	50.5	60.3	64.5	71.0	68.3	66.5
Oil production (in million tons)	13.3	11.9	12.2	12.5	12.5	12.0
GDP (in billions of CFA francs)	4,571	4,992	5,333	5,828	5,934	5,968
Exchange rate CFA francs per U.S. dollar (average)	526.6	522.4	...	...	...	...

Sources: Gabonese authorities and Fund staff estimates and projections.

Table 7. Gabon: Monetary Survey, 2004–09

	2004	2005	2006	2007	2008	2009
				Projections		
	(Billions of CFA francs)					
Net foreign assets	291.4	541.9	715.4	1,003.4	1,470.5	1,870.8
Central bank	165.2	334.0	527.9	808.5	1,251.1	1,646.1
Assets	216.2	375.4	558.6	822.9	1,253.7	1,648.7
Liabilities	-51.1	-41.4	-30.7	-14.4	-2.6	-2.6
Deposit money banks	126.2	208.0	187.5	194.9	219.4	224.7
Assets	193.7	265.3	246.7	263.6	288.0	293.3
Liabilities	-67.5	-57.3	-59.2	-68.6	-68.6	-68.6
Net domestic assets	369.3	290.6	262.4	93.8	-260.5	-542.5
Net domestic credit	498.6	434.2	416.1	357.2	66.4	-191.1
Net credit to the public sector	124.1	16.4	-90.6	-254.7	-628.0	-968.6
Net credit to the government	151.5	57.8	-39.6	-199.8	-569.4	-910.7
Central bank	94.3	29.4	-86.2	-230.4	-563.1	-870.3
Claims	197.2	174.1	89.9	60.7	39.1	31.3
<i>Of which</i>						
Statutory advances	148.1	135.4	60.9	48.7	39.0	31.2
Use of IMF credit	40.5	38.9	28.4	12.0	0.2	0.2
Deposits	102.8	144.6	176.1	291.1	602.2	901.6
Deposit money banks	57.2	28.3	46.7	30.6	-6.3	-40.5
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	-61.5	-67.2	-68.4
Credit to the economy	374.5	417.9	506.7	611.9	694.4	777.5
Other items, net	-129.3	-143.6	-153.7	-263.4	-326.9	-351.4
Broad money	660.6	832.6	977.8	1,097.2	1,210.0	1,328.2
Currency outside banks	138.7	190.2	219.1	245.8	271.1	297.6
Demand deposits	250.5	330.3	398.9	447.7	493.7	541.9
Time deposits	271.5	312.1	359.8	403.8	445.3	488.8
	(Changes in percent of beginning-of-period broad money)					
Net foreign assets	35.5	37.9	20.8	29.5	42.6	33.1
Net domestic assets	-23.8	-11.9	-3.4	-17.2	-32.3	-23.3
Net domestic credit	-21.0	-9.7	-2.2	-6.0	-26.5	-21.3
Net credit to the government	-13.6	-14.2	-11.7	-16.4	-33.7	-28.2
Credit to the economy	-6.5	6.6	10.7	10.8	7.5	6.9
Broad money	11.6	26.0	17.4	12.2	10.3	9.8
	(Annual percent changes, unless otherwise indicated)					
Credit to the economy	-9.3	11.6	21.3	20.8	13.5	12.0
Broad money	11.6	26.0	17.4	12.2	10.3	9.8
<i>Of which</i> : currency outside of banks	11.7	37.1	15.2	12.2	10.3	9.8
Memorandum items:						
Velocity						
Non-oil GDP	3.4	3.0	2.6	2.6	2.5	2.5
Total GDP	5.7	5.5	5.1	4.9	4.8	4.5
Non-oil GDP growth	2.8	5.4	9.9	12.2	7.9	7.5
Total GDP growth	7.8	20.5	9.2	6.8	9.3	1.8
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 8. Gabon: Financial Soundness Indicators for the Banking Sector, 2001–07

(Ratios in percent)

	2001	2002	2003	2004	2005	2006	2007 ¹
<i>Capital</i>							
Regulatory capital to risk-weighted assets ^{2,3}	17.2	17.2	19.9	22.3	19.8	17.8	17.2
Tier 1 capital to risk-weighted assets ³	16.5	16.5	19.0	21.1	19.0	17.2	16.8
Capital to total assets ⁴	12.3	12.4	13.1	13.2	11.1	10.2	10.6
<i>Asset quality</i>							
Nonperforming loans (gross) to total loans (gross)	9.7	12.8	15.5	18.0	16.0	12.2	7.7
Nonperforming loans (net of provisions) to regulatory capital ²	29.1	38.3	32.2	30.3	26.3	22.4	13.6
Loan loss provisions to nonperforming loans	36.6	41.7	53.9	53.6	55.5	57.4	62.3
<i>Earnings and Profitability</i>							
Return on assets ⁵	...	2.8	2.7	1.5	2.7	2.5	...
Return on equity ⁶	...	23.0	21.1	11.1	22.1	23.3	...
<i>Liquidity</i>							
Ratio of net loans to total deposits ⁷	93.4	103.1	91.0	69.2	56.7	57.8	70.1

Source: Staff estimates based on COBAC data and FSI definitions from IMF's "Compilation Guide on Financial Soundness Indicators".

¹ End-June, 2007.

² Current year profits are excluded from the definition of regulatory capital, following the Basel I capital accord guidelines.

General provisions are included in Tier 2 capital up to an amount equal to 1.25% of risk-weighted assets.

Regulatory capital is the sum of Tier 1 capital, and the minimum of Tier 1 and Tier 2 capital.

³ The risk-weighted assets are estimated using the following risk weights: 0% - cash reserves in domestic and foreign currency, and claims on the central bank and the government; 20% - claims on correspondent banks in foreign currency; 100% - all other assets.

⁴ Current year profits are excluded from the definition of capital (i.e., shareholders' funds).

⁵ The ratio of after-tax profits to the average of beginning and end-period total assets.

⁶ The ratio of after-tax profits to the average of beginning and end-period shareholders' funds (excluding current-year profits).

⁷ Including government deposits.

Table 9. Gabon : Capacity to Repay the Fund, 2006-12¹

	2006	2007	2008	2009	2010	2011	2012
(Millions SDR, unless otherwise indicated)							
Obligations from existing drawings							
Principal (repurchases)	9.8	22.2	15.6	--	--	--	--
Charges	2.6	1.9	1.1	0.5	0.5	0.5	0.5
Credit outstanding	37.8	15.6	--	--	--	--	--
(percent of quota)	24.5	10.1	--	--	--	--	--
Obligations from prospective drawings							
Principal (repurchases)	--	--	--	--	8.8	22.0	28.1
Charges	--	0.2	0.9	2.2	3.7	3.3	2.0
Credit outstanding	--	11.0	32.0	64.0	68.3	46.3	18.2
(percent of quota)	--	7.1	20.7	41.5	44.3	30.0	11.8
Cumulative (existing and prospective)							
Principal (repurchases)	9.8	22.2	15.6	--	8.8	22.0	28.1
Charges	2.6	2.1	1.9	2.8	4.2	3.8	2.5
Credit outstanding	37.8	26.6	32.0	64.0	68.3	46.3	18.2
Percent of quota	24.5	17.3	20.7	41.5	44.3	30.0	11.8
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	0.6	1.3	1.4	0.9	0.4
Percent of external public debt	1.7	1.4	1.9	4.7	5.8	4.7	2.1
Percent of external public debt service	8.5	5.5	6.8	13.5	19.3	12.6	5.5
Percent of gross foreign reserves	5.1	2.4	1.9	2.8	2.3	1.3	0.4
Memorandum items:							
Purchases	--	11.0	21.0	32.0	13.2	--	--

¹ Repurchases are based on expectation schedule.

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

Table 10. 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	33.1	33.5	6.7
Imports (percent change, 12-month basis in U.S. dollars)	6.0	10.6	11.3	17.8	15.4	19.9
Terms of trade (percent change, 12-month basis)	-10.7	4.2	3.3	9.3	22.4	10.3
Current account balance, incl. grants (in percent of GDP)	11.0	6.9	9.5	11.2	19.9	18.0
Gross official reserves (millions of U.S. dollars)	48	140	197	442	678	1,125
Gross official reserves (in months of imports of goods and services of the following year) ¹	0.4	1.0	1.0	1.9	2.8	3.5
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	3.7	4.8	5.1
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 external 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 (percent)	106.7	117.6	101.1	80.0	57.8	49.3
External interest payments to exports of goods and services percent	13.3	6.5	5.7	3.9	2.5	2.8
External amortization payments to exports of goods and services (percent)	15.6	13.7	10.6	9.4	5.9	7.3
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 11. Gabon: Purchase Schedule and Terms Under the Proposed Stand-By Arrangement, 2007-10¹

	Amount of Purchase	Cumul	Percent of Program	Availability Date	Conditions include
1.	SDR million	5.50	7.1	May, 2007	Executive Board Approval
2.	SDR million	11.00	7.1	December 15, 2007	Completion of First Review and observance of end-September 2007 performance criteria
3.	SDR million	15.00	5.2	March 15, 2008	Completion of Second Review and observance of end-December 2007 performance criteria
4.	SDR million	19.00	5.2	June 15, 2008	Observance of end March 2008 performance criteria
5.	SDR million	25.50	8.4	September 15, 2008	Completion of Third Review and observance of end-June 2008 performance criteria
6.	SDR million	32.00	8.4	December 15, 2008	Observance of end September 2008 performance criteria
7.	SDR million	40.00	10.4	March 15, 2009	Completion of Fourth Review and observance of end-December 2008 performance criteria
8.	SDR million	48.00	10.4	June 15, 2009	Observance of end March 2009 performance criteria
9.	SDR million	56.00	10.4	September 15, 2009	Completion of Fifth Review and observance of end-June 2009 performance criteria
10.	SDR million	64.00	10.4	December 15, 2009	Observance of end September 2009 performance criteria
11.	SDR million	77.15	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. Assessing External Debt Sustainability

1. **Staff analyzed the long-term sustainability of Gabon’s external debt based on the debt framework for market-access countries,** but modifying it to take into account the fact that Gabon is a net creditor country and an oil exporter with declining production, and intends to buy back most of the debt it owes to Paris Club creditors. While the standard analysis was used to compare base-line projections with an “unbiased” scenario where all variables are assumed to evolve in line with historical averages, some of the stress tests were adjusted.

2. **Because an oil price change has a heavy impact both on nominal GDP and the current account, the standard tests have been modified to distinguish between oil and non-oil developments.** The growth shock has been replaced by a shock on non-oil growth, and an oil price shock has been substituted for the current account shock. In this latter scenario the change in the oil price affects both oil GDP and the current account.¹ For the depreciation scenario, the DSA template was modified to reflect that a large—but gradually decreasing—a share of Gabon GDP is denominated in foreign currency (exports of oil, manganese, and wood). In addition, two slightly different baseline scenarios are reported in this Appendix. One is the status quo, without the Paris Club buyback; the other takes into account the buyback and its financing, the details of which are still being worked out. It is assumed here that the buyback is financed with reserves (US\$400 million), a six-year bullet bond on the regional market,² and a 10-year international bullet bond with an 8.2 percent coupon. The differences between the two scenarios are relatively minor for debt sustainability analysis.

3. **The baseline scenario for 2007-30 assumes a high oil price, successful development of the non-oil economy, and a commitment to the permanently sustainable non-oil fiscal deficit.** It is assumed that real non-oil GDP growth declines gradually, from the 6.5 percent projected in 2007 to 2 percent, its long-term historical average,³ and oil GDP falls by about 4 percent a year. International oil prices and CFAF/US\$ exchange rates reflect the World Economic Outlook projections through 2012 and are kept constant in real terms afterwards. The decrease in oil production has an adverse effect on the external current account surplus, which falls from 13.3 percent of GDP in 2007 to 9.2 percent by 2030. However, imports also drop relative to GDP because of fiscal consolidation and the decline in production and investment in the oil sector. Income flows include interest on the fiscal reserves Gabon has accumulated. The fiscal reserves are estimated by assuming that the non-oil primary deficit will decline to its permanently sustainable level of 6 percent of non-oil GDP by 2011 and be then held at that level. These assumptions will be reassessed during the Article IV consultation discussions, when staff will review the impact of higher oil prices on the long- term sustainable non-oil fiscal deficit.

4. **New external debt is assumed to be contracted at 2 percent of non-oil GDP a year to sustain the necessary growth-enhancing investment.** Half of the new debt is contracted from

¹ All tests have also been calibrated for standard deviations for 2001–06

² For this debt sustainability evaluation, the regional bond is evaluated along with external debt, but it will be classified as domestic debt in program documents, in line with standard practice for CFA-zone countries.

³ Because of lack of information, the projections do not include the impact of the Belinga Iron ore mining project.

multilateral institutions on a 10-year repayment schedule with a two-year grace period. The other half is borrowed from bilateral creditors with a seven-year maturity and a two-year grace period. The interest charged is the euro CIRR rate. It is also assumed that Gabon will not borrow from international capital markets after the Paris Club buyback.

5. **In the baseline scenario Gabon's debt-to-GDP ratio is projected to be sustainable, dropping to about 5 percent of GDP after 2020.** The scenario based on historical averages and the standard tests confirm the conclusions of the baseline scenario, with the predictable exception of the oil price shock test (Tables 1a and 1b and Figures 1a and 1b). In the baseline scenario, Gabon accumulates substantial foreign assets, which reach 150 percent of GDP by 2030. These long-term fiscal reserves will allow Gabon to run a permanently sustainable fiscal deficit of 6 percent of non-oil GDP even after its oil reserves are exhausted. In the historical scenario, because oil production is assumed to remain stable, the current account surplus is much higher, and external debt falls faster than in the baseline scenario and is totally repaid by 2012.

6. **For the five-year horizon over which the debt sustainability analysis of middle-income countries is usually assessed, Gabon's external debt seems sustainable under all the standard stress tests.** The debt-to-GDP ratio is below 32 percent in all cases. However, if the Paris Club debt buyback is financed with a 10-year bullet bond, debt ratios are higher in the medium term and breach the 40 percent level by 2012 in the oil price stress test.

7. **For the long term, in all standard stress tests except the oil price and depreciation tests, projected external debt would be below the critical range of 40–50 percent of GDP, above which the probability of a crisis typically becomes significant.** The debt-to-GDP ratio is robust to non-oil growth and interest shocks. With policies unchanged, the oil price, the combined shocks, and the depreciation tests show an explosive path for the external debt-to-GDP ratio. This results in part from the standard assumption that Gabon would continue to accumulate reserves at the same pace as in the baseline scenario if there were a severe negative external shock. Given the very large accumulation of reserves in the baseline case, this assumption is too stringent; any reduction in the current account surplus is likely to result in less accumulation of foreign assets.⁴

8. **The impact of the Paris Club buyback on long-term debt sustainability is marginal.** With the use of a 10-year bullet bond, the debt-to-GDP-ratio would be above that of the non-Paris Club buyback scenario for most of the time. However, with the buyback assumption, the accumulation of foreign assets would be larger, producing a positive result in terms of net debt. The debt-to-GDP ratio is sustainable, never breaching 20 percent after 2008 for the interest and non-oil growth stress tests. Finally, the debt buyback does not bring major benefits if there is an oil price or a combined shock or a large depreciation.

⁴ In the bound tests the evolution of external debt relative to GDP equals the sum of the changes in debt service minus the current account net of debt service payments, net foreign direct and portfolio investment, and the accumulation of foreign assets by residents. The US dollar value of the accumulation of foreign assets by residents in each year of the forecast period is kept the same as in the baseline scenario. In Gabon, this residual is sizable, reflecting government savings of oil revenues.

Table 1a. Gabon: External Debt Sustainability Framework, 2002-2030, without the Paris Club Buyback
(In percent of GDP, unless otherwise indicated)

	Actual											Projections					Debt-stabilizing non-interest current account ^e
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2015	2020	2025	2030				
1 Baseline: External debt	63.0	55.9	49.8	39.1	32.5	26.5	20.9	16.8	14.5	7.5	5.0	4.7	5.4	-2.2			
2 Change in external debt	0.0	-7.1	-6.2	-10.6	-6.6	-6.0	-5.6	-4.1	-2.3	-0.5	-0.2	0.0	0.2				
3 Identified external debt-creating flows (4+8+9)	-11.0	-25.5	-24.4	-25.1	-21.4	-15.6	-20.6	-19.0	-16.7	-18.3	-19.8	-16.3	-11.7				
4 Current account deficit, excluding interest payments	-10.4	-13.5	-13.6	-21.6	-19.9	-17.4	-17.4	-16.0	-13.9	-15.5	-17.1	-13.9	-9.5				
5 Deficit in balance of goods and services	-19.2	-24.3	-30.2	-38.3	-33.9	-28.8	-33.1	-30.8	-27.5	-24.6	-22.0	-14.8	-7.0				
6 Exports	53.6	55.3	62.2	67.7	66.0	64.4	65.0	62.8	59.8	54.4	50.1	42.6	34.0				
7 Imports	34.3	31.1	32.0	29.4	32.1	35.6	32.0	31.9	32.3	29.8	28.1	27.7	27.0				
8 Net non-debt creating capital inflows (negative)	-1.2	-4.4	-4.6	3.3	0.2	-0.8	-3.5	-3.3	-3.2	-3.1	-3.0	-2.8	-2.5				
9 Automatic debt dynamics ¹	0.6	-7.5	-6.3	-6.8	-1.7	0.1	0.3	0.4	0.4	0.4	0.3	0.3	0.3				
10 Contribution from nominal interest rate	3.5	4.1	2.4	1.7	1.9	1.7	1.3	1.2	1.0	0.5	0.4	0.4	0.4				
11 Contribution from real GDP growth	0.2	-1.3	-0.6	-1.2	-0.4	-1.6	-1.0	-0.8	-0.5	-0.2	-0.1	0.0	-0.1				
12 Contribution from price and exchange rate changes ²	-3.1	-10.3	-8.1	-7.3	-3.2	...	...	...	...	...	...	...	...
13 Residual, incl. change in gross foreign assets (2-3) ³	11.0	18.5	18.3	14.5	14.8	9.6	15.0	14.8	14.4	17.8	19.7	16.3	11.9				
External debt-to-exports ratio (in percent)	117.6	101.1	80.0	57.8	49.3	41.1	32.1	26.7	24.2	13.8	10.0	11.0	15.9				
Gross external financing need (in billions of US dollars)⁴	0.0	-0.2	-0.4	-1.4	-1.3	-0.9	-1.4	-1.3	-1.2	-2.0	-2.7	-2.4	-1.7				
in percent of GDP	0.5	-3.6	-5.3	-15.9	-13.2	-8.3	-11.5	-10.1	-9.5	-13.4	-15.2	-12.0	-7.7				
Scenario with key variables at their historical averages⁵						26.5	24.9	20.0	13.7	0.0	0.0	0.0	0.0	-0.8			
Key Macroeconomic Assumptions Underlying Baseline																	
Real GDP growth (in percent)	-0.3	2.5	1.3	3.0	1.2	5.6	4.2	3.8	3.2	2.0	1.3	1.0	1.2				
GDP deflator in US dollars (change in percent)	5.2	19.6	16.9	17.2	8.8	8.7	6.8	-1.5	-1.9	1.8	1.4	0.9	1.1				
Nominal external interest rate (in percent)	5.8	7.9	5.1	4.2	5.3	6.1	5.6	5.7	5.9	7.0	8.0	7.9	7.6				
Growth of exports (US dollar terms, in percent)	-4.8	26.6	33.2	31.4	7.3	12.0	12.3	-1.3	-3.6	2.6	0.7	-2.0	-2.4				
Growth of imports (US dollar terms, in percent)	9.0	11.0	22.1	10.7	20.5	27.2	-0.2	2.2	2.4	2.1	2.0	1.8	-0.5				
Current account balance, excluding interest payments	10.4	13.5	13.6	21.6	19.9	15.0	17.4	16.0	13.9	15.5	17.1	13.9	9.5				
Net non-debt creating capital inflows	1.2	4.4	4.6	-3.3	-0.2	0.8	3.5	3.3	3.2	3.1	3.0	2.8	2.5				
B. Bound Tests																	
B1. Nominal interest rate is at historical average plus 1/2 standard deviation						26.5	21.2	17.5	15.5	9.6	8.4	9.7	12.4	-1.8			
B2. Real non-oil GDP growth is at historical average minus 1/2 standard deviations						26.5	21.2	17.2	15.0	8.7	7.2	8.3	10.5	-2.1			
B3. Oil price is at historical average minus 1/2 standard deviations						26.5	29.6	31.4	28.2	50.6	81.3	116.0	159.9	2.8			
B4. Combination of B1-B3 using 1/4 standard deviation shocks						26.5	25.2	24.0	18.3	24.8	41.5	62.0	92.6	0.8			
B5. One time 30 percent real depreciation in 2008						26.5	28.0	26.4	26.7	34.9	54.4	81.2	108.9	0.6			
Gross Fiscal Savings	2.9	1.4	2.7	3.2	3.5	5.5	9.9	15.6	23.2	63.8	104.3	129.8	152.1				

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

² The contribution from price and exchange rate changes is defined as $\epsilon_r \rho(1+g) + \alpha\alpha(1+\rho)/(1+g+\rho)$ times previous period debt stock; ρ increases with an appreciating domestic currency ($\epsilon > 0$) 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; 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 1b. Gabon: External Debt Sustainability Framework, 2002-2030, with the Paris Club Buyback
(In percent of GDP, unless otherwise indicated)

	Actual										Projections					Debt-stabilizing non-interest current account ^e -2.3
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2015	2020	2025	2030			
1 Baseline: External debt	63.0	55.9	49.8	39.1	32.5	26.5	20.3	19.7	19.0	14.5	8.1	7.5	7.9			
2 Change in external debt	0.0	-7.1	-6.2	-10.6	-6.6	-6.1	-6.1	-0.6	-0.8	-0.3	-0.2	-0.1	0.1			
3 Identified external debt-creating flows (4+8+9)	-11.0	-25.5	-24.4	-25.1	-21.4	-15.6	-20.6	-19.0	-17.0	-18.6	-20.0	-17.2	-12.8			
4 Current account deficit, excluding interest payments	-10.4	-13.5	-13.6	-21.6	-19.9	-15.0	-17.3	-16.2	-14.4	-16.1	-17.2	-14.7	-10.6			
5 Deficit in balance of goods and services	-19.2	-24.3	-30.2	-38.3	-33.9	-28.7	-33.1	-30.8	-27.4	-24.6	-22.0	-14.8	-7.0			
6 Exports	53.6	55.3	62.2	67.7	66.0	64.3	65.1	62.8	59.8	54.4	50.2	42.6	34.0			
7 Imports	34.3	31.1	32.0	29.4	32.1	35.6	32.0	32.0	32.3	29.8	28.2	27.8	27.0			
8 Net non-debt creating capital inflows (negative)	-1.2	-4.4	-4.6	3.3	0.2	-0.8	-3.5	-3.3	-3.2	-3.1	-3.0	-2.8	-2.5			
9 Automatic debt dynamics ¹	0.6	-7.5	-6.3	-6.8	-1.7	0.1	0.3	0.6	0.7	0.7	0.3	0.3	0.3			
10 Contribution from nominal interest rate	3.5	4.1	2.4	1.7	1.9	1.7	1.3	1.3	1.3	1.0	0.4	0.4	0.4			
11 Contribution from real GDP growth	0.2	-1.3	-0.6	-1.2	-0.4	-1.6	-1.0	-0.8	-0.6	-0.3	-0.1	-0.1	-0.1			
12 Contribution from price and exchange rate changes ²	-3.1	-10.3	-8.1	-7.3	-3.2	...	...	...	...	...	...	...	...
13 Residual, incl. change in gross foreign assets (2-3) ³	11.0	18.5	18.3	14.5	14.8	9.5	14.4	18.5	16.2	18.3	19.8	17.2	13.0			
External debt-to-exports ratio (in percent)	117.6	101.1	80.0	57.8	49.3	41.1	31.2	31.4	31.7	26.7	16.2	17.6	23.4			
Gross external financing need (in billions of US dollars)⁴	0.0	-0.2	-0.4	-1.4	-1.3	-0.9	-1.7	-1.6	-1.4	-2.2	-2.7	-2.6	-1.9			
in percent of GDP	0.5	-3.6	-5.3	-15.9	-13.2	-8.3	-14.0	-13.1	-11.4	-14.1	-15.4	-12.9	-8.8			
Scenario with key variables at their historical averages⁵						26.5	24.2	22.6	17.7	0.0	0.0	0.0	0.0			
Key Macroeconomic Assumptions Underlying Baseline																
Real GDP growth (in percent)	-0.3	2.5	1.3	3.0	1.2	5.6	4.2	3.8	3.2	2.0	1.3	1.0	1.2			
GDP deflator in US dollars (change in percent)	5.2	19.6	16.9	17.2	8.8	8.8	6.6	-1.5	-1.9	1.8	1.4	0.9	1.1			
Nominal external interest rate (in percent)	5.8	7.9	5.1	4.2	5.3	6.1	5.5	6.7	6.6	6.8	5.0	4.9	5.0			
Growth of exports (US dollar terms, in percent)	-4.8	26.6	33.2	31.4	7.3	12.0	12.3	-2.3	-3.6	2.6	0.7	-2.0	-2.4			
Growth of imports (US dollar terms, in percent)	9.0	11.0	22.1	10.7	20.5	27.3	-0.2	1.3	2.4	2.1	2.0	1.8	-0.5			
Current account balance, excluding interest payments	10.4	13.5	13.6	21.6	19.9	15.0	17.3	16.2	14.4	16.1	17.2	14.7	10.6			
Net non-debt creating capital inflows	1.2	4.4	4.6	-3.3	-0.2	0.8	3.5	3.3	3.2	3.1	3.0	2.8	2.5			
B. Bound Tests																
B1. Nominal interest rate is at historical average plus 1/2 standard deviation						26.5	20.7	20.5	20.0	17.2	12.3	13.2	15.5			
B2. Real non-oil GDP growth is at historical average minus 1/2 standard deviations						26.5	20.6	20.2	19.5	15.8	10.3	10.8	12.4			
B3. Oil price is at historical average minus 1/2 standard deviations						26.5	28.9	34.8	33.4	62.8	89.3	125.8	173.4			
B4. Combination of B1-B3 using 1/4 standard deviation shocks						26.5	24.5	27.1	23.1	36.2	49.7	73.4	109.0			
B5. One time 30 percent real depreciation in 2008						26.5	27.3	29.9	32.2	43.9	57.2	81.2	106.4			
Gross Fiscal Savings	2.9	1.4	2.7	3.2	3.5	5.5	11.2	22.7	33.3	74.2	106.9	146.0	171.7			

¹ Derived as $[r - \rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ 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).

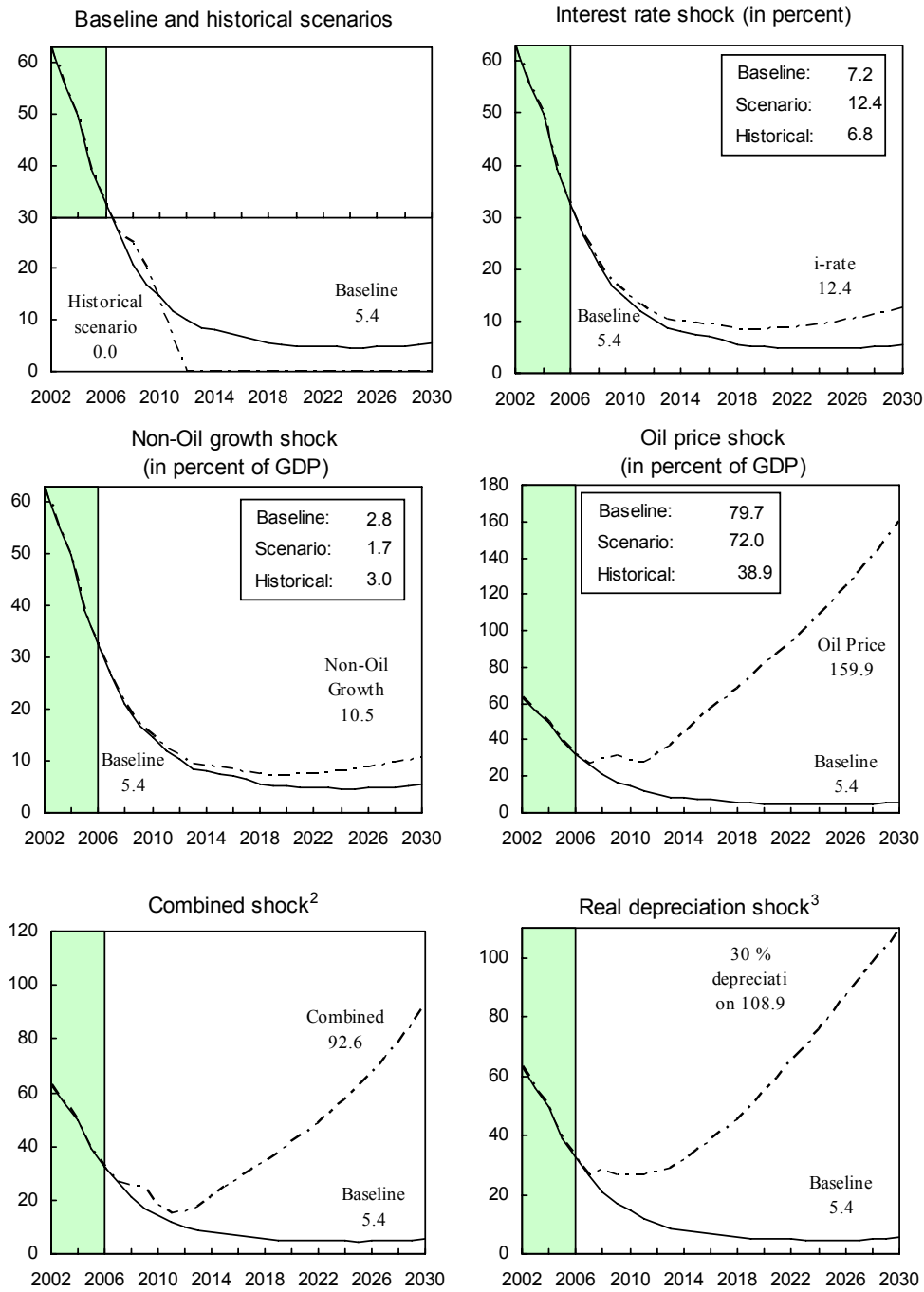
³ For projection, line includes the impact of price and exchange rate changes.

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.

Figure 1a. Gabon: External Debt Sustainability: Bound Tests¹
 (External debt in percent of GDP, without Paris Club Buyback)



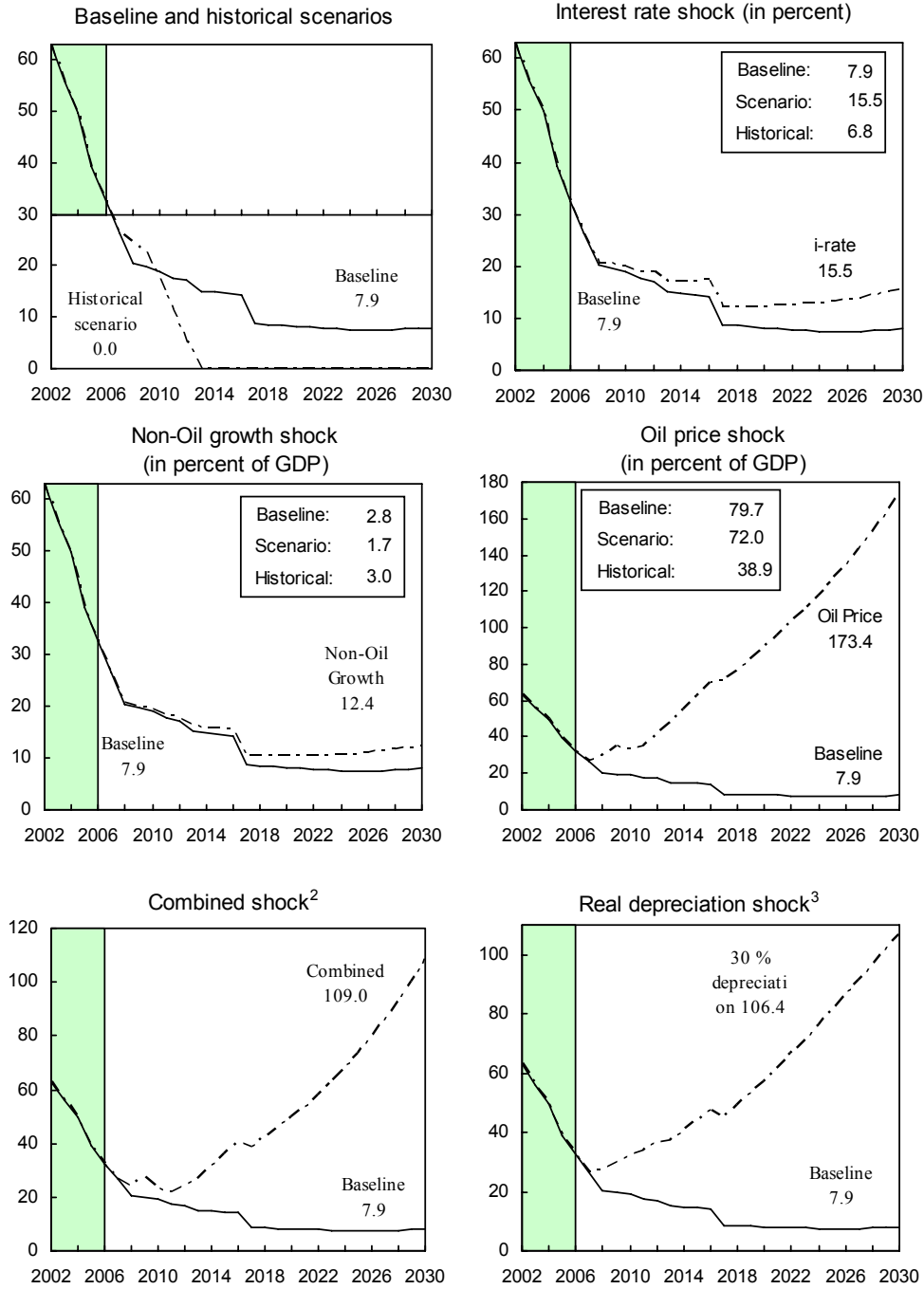
Sources: International Monetary Fund, Country desk data, and staff estimates.

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. Six-year historical average for the variable is also shown.

² Permanent 1/4 standard deviation shocks applied to real interest rate, non-oil growth rate, and oil price (current account balance).

³ One-time real depreciation of 30 percent occurs in 2008.

Figure 1b. Gabon: External Debt Sustainability: Bound Tests¹
 (External debt in percent of GDP, with Paris Club Buyback)



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. Six-year historical average for the variable is also shown.

² Permanent 1/4 standard deviation shocks applied to real interest rate, non-oil growth rate, and oil price (current account balance).

³ One-time real depreciation of 30 percent occurs in 2008.

Attachment I. The Authorities' Letter of Intent

Libreville, December 13, 2007

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, DC 20431

Dear Mr. Strauss-Kahn:

1. This letter updates the letter of April 15, 2007 presenting the economic program to be supported by the Stand-by Arrangement approved by the Executive Board of the International Monetary Fund on May 7, 2007. The government hereby reiterates its commitment to pursuing the necessary economic policies and reforms to achieve sustainable growth and reduce poverty in Gabon while addressing the challenges associated with the anticipated decline in oil production. This letter also reports on performance on the program to date and government policy intentions for the remainder of 2007 and for 2008.
2. Robust non-oil activity continued in the first half of 2007, largely offsetting a slower than expected rebound in oil production. A pick-up in activity in mining, forestry, wood processing, and agro-industries should lead to non-oil real GDP growth of 6.4 percent in 2007. By contrast, the oil sector will grow by only 3.1 percent because of temporary technical problems. Overall, real GDP growth should amount to 5.6 percent in 2007, in line with program objectives.
3. Driven by rising prices of petroleum products and foodstuffs, 12-month inflation rose to 6.3 percent in May 2007 before declining to 4.4 percent at the end of August. Gabon's external position remains sound, although the current account balance will likely be lower than projected because of a sharp rise in imports and oil company profit outflows. However, the balance of payments will remain in healthy surplus, and foreign reserves will rise to cover 5.2 months of imports by year-end.
4. Cautious budget execution in the first 9 months of 2007 kept the non-oil primary deficit (NOPD) at 9 percent of non-oil GDP, marginally below the program target. However, the budget surplus did not reach its target, because oil revenue was below expectations. A sustained effort to raise non-oil revenue and strict expenditure management should allow the government to meet the 2007 budget target, which is to bring the NOPD down to 11.6 percent of non-oil GDP (from 18.0 percent in 2006). However, to achieve the fiscal objective and execute the social spending programs envisaged in the supplementary budget, the government recognizes the need to control fuel price subsidies.

5. Social pressures sparked by the sharp rise in diesel and gasoline prices last March and the recent hike in the prices of a few essential consumer goods, have compelled the government to act cautiously. In particular, since March the government has kept fuel prices unchanged, instead of applying the automatic price adjustment formula envisaged in the program. Consequently, with international prices continuously rising, subsidies reached CFAF 36.8 billion in the first nine months of the year, against a programmed CFAF 27.5 billion.

6. To address this problem, the government first revised the price structure in May so as to separate the fuel price subsidy from the support provided to the national refinery, SOGARA. That support will be removed from the price structure in 2008 and its rationale will be re-examined in April 2008, once the results of the refinery audit are available. Before end March 2008, the government will reflect the changes in oil product import prices since September 2007 in retail prices, as determined by the price adjustment formula. Then, the price adjustment formula will be applied monthly starting in April 2008. These measures should hold consumer subsidies to 1.25 percent of non-oil GDP in 2008, while support to SOGARA would amount to 0.55 percent of non-oil GDP. The government reiterates its commitment to meet the 2008 fiscal target for the NOPD (see ¶11), despite the delayed implementation of the fuel price adjustment formula, and stands ready to adjust spending for goods and services and non-social sector transfers payments as needed.

7. In September the government imposed temporary price controls on a small number of products for which prices had risen sharply. It is working with the companies concerned to identify the causes of these increases and intends to lift the controls before the end of 2007. Also, as part of the study of the economy's productivity, competitiveness, and diversification, to be completed by July 2008, the government will determine how best to encourage competition in protected sectors.

8. In 2007 the BEAC intervened to slow growth in the monetary aggregates in Gabon. In March it increased the reserve requirements for banks in Gabon from 7.75 percent to 10.25 percent on demand deposits, and from 5.75 percent to 8.25 percent on term deposits. The BEAC has also accepted remunerating deposits of commercial banks at 1.95 percent. As a result of these measures, annual growth in the money supply slowed to 12 percent in June.

9. Regarding program execution, all performance criteria for June and September were met (Table 1A), except for the application of the automatic adjustment formula for ex-refinery prices and the September ceiling on net bank credit to the government, for which the government is requesting waivers. All the structural benchmarks have also been implemented, though with some delays (Table 2). Quantitative performance criteria for March and June 2008 and the list of structural measures for the second review was updated (see Tables 1B and 2).

A. Macroeconomic Framework for 2008

10. Non-oil GDP real growth is forecast at 4.7 percent in 2008, driven primarily by forestry, wood industry, and services. Oil output is expected to rise by 2.4 percent as new fields come on stream. Average annual inflation should decline to 3 percent, which is the CEMAC convergence criterion. The balance of payments is expected to remain comfortably in surplus, thanks to sustained oil, mining, and forestry exports.

B. Fiscal Policy

11. Fiscal prudence is central to achieving sustainable growth and keeping the economy stable over the medium term. The government therefore reiterates its commitment to observe the fiscal adjustment path agreed under the medium-term program and bring the NOPD to its permanently sustainable level, estimated at 6 percent of non-oil GDP, by 2011; the objective for 2008 is to bring the NOPD to 10 percent of non-oil GDP. Non-oil revenue is expected to represent 25.1 percent of non-oil GDP in 2008, the same level as projected for 2007 but a marked improvement over 2005–06. The government also intends to gradually reduce the ratio of primary expenditure-to-non-oil GDP by keeping growth in the main spending items below nominal non-oil GDP growth. The wage bill will be capped at 10.6 percent of non-oil GDP through controls on staffing, revisions to nonwage benefits, and regular updating of payroll and civil service records. Budget allocations for the refinery, SOGARA, will be recorded separately from those earmarked for fuel price subsidies (see ¶6). The government also included a budget allocation of CFAF 2.2 billion for the National Health Insurance and Social Security Fund (CNAMGS), which was established in 2007. By April 2008 the government will have in place an action plan specifying costs, benefits, and sources of financing for the new scheme. Capital spending, including projects supported by development partners, will rise from 8.6 percent of non-oil GDP in 2007 to 9.4 percent in 2008.

12. Government revenues from the oil sector are expected to rise slightly in nominal terms but decline as a percentage of GDP. These revenues will not only make it possible to finance the non-oil budget deficit and service the debt but will also increase the government's financial assets, which is essential for financing the permanently sustainable deficit once oil revenues decline. The government will work with the BEAC to explore new approaches for enhancing the annual return on these savings, which is currently 3.45 percent.

C. Public Financial Management Reform

13. The government will continue to implement its public financial management reform. Budget coverage has already been extended to cover a larger share of government revenue and expenditure; revenue administration has been reinforced, particularly for oil; and government spending has been brought under tighter control. However, the reform program, which is ambitious, will require both continued government efforts and assistance from development partners.

Budget preparation and execution

14. With the 2008 budget exercise the government has improved coordination between the ministries of finance and planning in preparing the current and investment budgets. Cooperation with spending ministries has also been improved through the use of medium-term expenditure frameworks (MTEF) that reflect the objectives of the PRSP objectives for priority sectors while taking into account economic constraints. The 2008 budget contains allocations for education, health, agriculture, and public works based on priority action programs for each sector. Before the end of 2007, the government plans to finalize a comprehensive MTEF to be used in preparing the 2009 budget. The government has submitted to parliament a long-term debt sustainability analysis, which will be annexed to the 2008 budget law. Finally, only projects for which a feasibility study was prepared were included in the budget.

15. Efforts at increasing budget transparency continue. For the first time, estimates of tax spending broken down by individual taxes will be included in the 2008 budget documents submitted to Parliament, to show parliamentarians the cost of tax exemptions and special treatment. The economic and financial report also includes tables summarizing budget performance in 2005 and 2006 and estimates for 2007. The functional classification of all central government expenditures will be completed by the end of 2007 and used in the 2009 budget. The budget reporting system has been reinforced, and monthly budget execution reports will be available with a two-month lag by March 2008. The government has improved its cash management by introducing a new monthly cash management plan. Payment periods have been reduced from 90 to 60 days starting December 1, 2007.

Strengthening revenue administration and transparency

16. The government has submitted the new general tax code to Parliament for consideration in the current session. It brings together and clarifies tax obligations and procedures adopted in previous budget laws and in CEMAC/OHADA legislation. Furthermore, it regularizes the transfer of authority for tax collection to the tax administration. It also clarifies the rights and obligations of taxpayers.

17. With the assistance of an international consulting firm, the government is preparing a model for projecting and auditing oil revenues. The model is based on actual output and prices and on field-specific contract provisions. Use of the model will make it easier for the government to ensure that oil companies comply with their fiscal obligations. It will be tested on actual monthly oil production and prices for 2007; any significant discrepancy between the model's estimates and collected oil receipts will be investigated to ensure that all payments due to the government are recovered. In 2008, for the first time, the draft budget will include revenue and spending resulting from oil receipts that fund projects under provisions in a limited number of oil contracts—provisions for differentiated investments (PID) and provisions for investments in hydrocarbons (PIH). In a concerted effort to make oil and mining revenue more transparent, the government will also publish by year-end the EITI

report for 2006. The report will identify and explain discrepancies between oil payments received by the government and reported to the EITI and oil revenue recorded by the treasury. The government will also reconcile oil revenues received by the state and declared for the EITI with oil revenues recorded in the 2006 table of government financial operations. The Treasury will also continue its efforts to reduce the bank transaction costs associated with converting oil revenues from US dollars to CFA francs.

Enhancing the quality of public spending

18. To improve the efficiency and quality of public spending, the share of public procurement contracts that are awarded on a competitive basis was increased to 69 percent in the first half of 2007, well above the 50 percent target set for 2007. The General Directorate of Public Procurement posts on its web site all calls for bids and reports on contracts awarded. As planned, expenditures related to the Independence Day Celebration (*Fêtes tournantes*) followed budgetary procedures in 2007. Every project selected for the 2008 *Fêtes tournantes* will be identified in the budget on a separate budget line and executed according to budget procedures. Once Parliament has adopted the budget, the government will publish in the national press the list of projects selected for the 2008 *Fêtes tournantes* and their estimated costs.

D. Paris Club Debt Buyback

19. In July 2007 Paris Club creditors reached agreement in principle with the Gabonese government on early repayment of the debt, discounted by about 15 percent. This operation will reduce debt service and improve its profile. In September the eight creditors participating in the operation advised that all their claims would be eligible for buyback. Gabon will decide before end-December on how much it will buy back. The buyback is to be financed from the country's cash reserves, a bond issue on the regional market denominated in CFA francs, and a US dollar bond issue on the international market. The rating agencies have given Gabon's sovereign debt a credit rating of BB-. On December 5, 2007, the government successfully completed the first leg of the financing package by issuing a 10 year bullet bond on the international capital market with a coupon of 8.2 percent. The operation gives Gabon access to international capital markets for the first time and helps develop the regional financial market.

E. Growth-Enhancing Reforms and Other Issues

20. The recent dynamism of the non-oil private sector is encouraging, but significant structural reforms are needed to make it sustainable. A proper competitiveness study will identify the constraints—particularly the lack of infrastructure—that are now holding back non-oil sectors that have good potential for exports and job creation. The government will work with the private sector to discuss a broad framework for implementing and monitoring measures to enhance the productivity and diversification of the Gabonese economy.

21. The privatization agenda is moving forward. The procedure for divesting the government of its majority ownership in Gabon Telecom will be concluded shortly. A recent audit showing heavy losses for Gabon Telecom in 2006 was attached to the draft 2008 budget law submitted to parliament, and will be published on the website of the Ministry of Economy and Finance. The government also reached agreement with the Gabon Electricity and Water Corporation, SEEG, on how to respond to the financial difficulties it incurred in 2007 because of an abrupt increase in electricity generating costs that the pricing formula did not adequately accommodate. An ad hoc commission has been established with a mandate to find a solution this year to the problems with the concession, including the tariff adjustment formula and the financing of investments needed to meet rapidly growing demand. With regard to other sectors, a foreign company has been granted a 25-year concession to improve operations in Gabon's two major ports. The government also expects that the reforms it has made in the forestry sector, in particular the easing of restrictions on exports of okoumé logs, will result in more robust activity and exports.

22. The government will support the work of the regional banking supervisors to ensure that banks observe prudential ratios. It will also work with other governments in the CEMAC to pursue establishment of a regional treasury bill market. Such a market would offer banks better liquidity management opportunities and would give the BEAC a market-based instrument to manage monetary policy.

23. The government believes that the policies described in this letter are adequate to achieve the program objectives. It is prepared, however, to take any additional measures that may be considered necessary, after consultation with IMF staff.

Sincerely yours,

/sgd/

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

Table 1A. Gabon: Quantitative Performance Criteria under the SBA 2007–10
(Billions of CFA francs; end-period data; cumulative flows from January 1st)¹

	2006		2007				Dec. Prog.	
	Dec. Prel.	Prog.	Jun.		Sep.			
			Adj.	Actual	Adj.	Actual		
Performance criteria								
Floor on the primary fiscal balance, excluding oil revenue and restructuring costs (on a payments order basis) ²	-435,8	-150,4	-162,2	-121,4	-246,5	-255,9	-243,5	-314,1
Ceiling on the net claims of the banking system on the central government ³	-39,6	-112,8	-56,7	-62,8	-106,0	-67,7	-23,9	-191,1
Ceiling on the contracting or guaranteeing of new external debt by the central government ⁴	164,5	140,0	140,0	64,1	155,0	155,0	81,2	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	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	0,0	0,0	0,0
Memorandum items								
Foreign financed projects	63,3	21,0		32,9	30,7		40,1	42,6
Non-project external financing	14,5	0,0		0,0	0,0		0,0	0,0
Oil revenue	1.012,9	463,9		418,7	685,8		667,1	938,0
Privatization receipts	0,0	19,0		13,0	19,0		13,0	19,0
External debt service payments (excluding IMF)	324,6	172,1		165,4	273,4		269,8	327,2
Domestic debt service payments	107,9	91,2		94,4	126,9		138,3	163,0
Public enterprises restructuring costs	39,8	12,9		13,8	17,1		20,3	22,5
Net change in unpaid payment orders at the treasury	-27,8	-10,5		-4,0	-15,8		-13,0	-21,0
Change in outstanding wage arrears (<i>rappels de solde</i>)	-20,6	-10,0		-9,3	-15,0		-17,9	-20,0
Banks' purchases of outstanding government domestic debt (<i>rachat de creances</i>)	....	0,0		14,8	0,0		8,8	0,0

Sources: Gabonese authorities and IMF staff estimates and projections.

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

² The performance criterion will be adjusted upward or downward for any lower or higher execution of foreign-financed investment. The downward adjustment is capped at CFAF 25 billion.

³ The performance criterion will be adjusted upward or downward for any lower or higher than programmed oil revenue and lower or higher than programmed privatization receipts. It will also be adjusted upward or downward for any higher or lower payments of external debt service net of new external non-project financing, payments of domestic debt service, public enterprises restructuring costs, reduction of unpaid payment orders at the treasury, reduction of wage arrears related to the reconstruction of government employees' careers (*rappels de la solde*). 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 beyond the programmed levels. Finally, the performance criterion will be adjusted upward for any increase in commercial bank credit to the government reflecting new purchases by commercial banks of existing government domestic debt owed to non-banks (*rachat des creances*).

⁴ This performance criterion 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 Executive Board on August 24, 2000, but also to commitments contracted or guaranteed for which value has not been received. The performance criterion will be adjusted upward to include external loans contracted during a debt buyback 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 1B. Gabon: 2008 Quantitative Performance Criteria and Indicative Targets under the SBA
(Billions of CFA francs; end-period data; cumulative flows from January 1st)¹

	2007		2008				Indicative
	Dec. Proj.	Mar. Prog.	Jun. Prog.	Jul.	Sep.	Dec.	
Performance criteria							
Floor on the primary fiscal balance, excluding oil revenue and restructuring costs (on a payments order basis) ²	-311.4	-68.9	-117.5	-199.1	-292.6		
Ceiling on the net claims of the banking system on the central government ³	-199.8	-260.2	-385.1	-446.7	-569.4		
Ceiling on the contracting or guaranteeing of new external debt by the central government ⁴	130.8	190.3	247.7	277.2	277.2		
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	0.0		
Memorandum items							
Foreign financed projects	42.6	19.4	32.2	43.4	68.0		
Non-project external financing	0.0	0.0	0.0	0.0	0.0		
Oil revenue	1,005.5	268.3	532.0	786.5	1,075.7		
Privatization receipts	13.0	0.0	0.0	0.0	0.0		
External debt service payments (excluding IMF)	332.3	91.6	167.3	263.8	335.1		
Domestic debt service payments	165.9	25.1	47.5	68.7	90.0		
Public enterprises restructuring costs	-22.5	2.6	5.2	7.7	10.3		
Net change in unpaid payment orders at the treasury	-26.0	-34.1	-31.4	-28.7	-26.0		
Change in outstanding wage arrears (<i>rappels de solde</i>)	-20.6	-5.0	-10.0	-15.0	-20.0		
Banks' purchases of outstanding government domestic debt (<i>rachat de créances</i>)	....	0.0	0.0	0.0	0.0		

Sources: Gabonese authorities and IMF staff estimates and projections.

¹ Performance criteria for March and June, indicative objective for September and December. Detailed definitions of the performance criteria are provided in the Technical Memorandum of Understanding.

² The performance criterion will be adjusted upward or downward for any lower or higher than programmed oil revenue and lower or higher than programmed privatization receipts. It will also be adjusted upward or downward for any higher or lower payments of external debt service net of new external non-project financing, payments of domestic debt service, public enterprises restructuring costs, reduction of unpaid payment orders at the treasury, and reductions in *rappels de la solde* are limited to CFAF 5 billion beyond the programmed levels. Finally, the performance criterion will be adjusted upward for any increase in commercial bank credit to the government reflecting new purchases by commercial banks of existing government domestic debt owed to non-banks (*rachat des créances*).

³ The performance criterion will be adjusted upward or downward for any lower or higher execution of foreign-financed investment. The downward adjustment is capped at CFAF 25 billion. reduction of wage arrears related to the reconstruction of government employees' careers (*rappels de la solde*). 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 beyond the programmed levels. Finally, the performance criterion will be adjusted upward for any increase in commercial bank credit to the government reflecting new purchases by commercial banks of existing government domestic debt owed to non-banks (*rachat des créances*).

⁴ This performance criterion 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 Executive Board on August 24, 2000, but also to commitments contracted or guaranteed for which value has not been received. The performance criterion will be adjusted upward to include external loans contracted during a debt buyback 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—Structural Measures Programmed for 2007 and 2008

Test date	Actions	Current situation	PC or Benchmark
	Apply the automatic adjustment formula to ex-refinery fuel product prices to reflect changes in international prices.	Not observed	Continuous PC
	Subject all 2007 capital spending for the <i>fêtes tournantes</i> to regular budgetary procedures.	Observed	Continuous PC
September 15	Strengthen cash management by establishing an annual treasury plan.	Observed	PC
June 2007	Prepare a compilation of all tax expenditures.	Observed	Benchmark
September 15	Submit to parliament a new tax code, incorporating all the modifications made in recent years.	Observed	Benchmark
June 2007	Publish the names of all government officials who have not complied with the asset disclosure requirement by end-April 2007.	Observed	Benchmark
June 2007	Disseminate key documents of general public interest by posting on the Ministry of Finance website (i) the 2004, 2005, and 2006 supplementary budgets, (ii) the reports of the Audit Court (<i>Cour des comptes</i>) on budget execution in 2003 and 2004, (iii) the reports on the audit of the <i>fêtes tournantes</i> and the arrears of the Road Maintenance Fund (FER) prepared in 2005, and (iv) the annual reports for the CNLCEI for 2005 and 2006.	Observed	Benchmark
June 2007	Adopt a new CPI with weights based on the 2005 household expenditure survey.	Observed	Benchmark

Test date	Actions	Current situation	PC or Benchmark
Second review			
December 2007	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 (ii) an annex with estimates of all tax expenditures by type of taxes.		PC
February 2008	Make operational the oil-revenue projection model that links oil revenue to production, prices, costs, and physical 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.		PC
March 2008	Adjust ex-refinery fuel product prices to reflect the changes in import parity prices, as calculated for the purpose of the automatic adjustment formula, since September 2007.		PC
	Starting in April 2008, apply each month the automatic adjustment formula to ex-refinery fuel product prices to reflect changes in international prices.		Continuous PC
December 2007	Publish the list of projects under the 2008 <i>fêtes tournantes</i> in the national press.		Benchmark
December 2007	Prepare a comprehensive government asset and liability management strategy.		Benchmark
December 2007	Develop a three-year, rolling medium-term expenditure framework including consistent sectoral programs for 2008-10.		Benchmark
December 2007	Reduce the Treasury payment period to 60 days and announce it on the Treasury website.		Benchmark
December 2007	Prepare monthly budget execution reports with a maximum lag of two months.		Benchmark
December 2007	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.		Benchmark
December 2007	Publish the Official Gazette on the Internet.		Benchmark
April 2008	<i>Complete the audit of SOGARA.</i> ¹		Benchmark
April 2008	<i>Prepare an action plan and a cost estimate for implementing the health insurance and social security system.</i> ¹		Benchmark

¹New benchmark.

ANNEX I. RELATIONS WITH THE FUND

(As of October 31, 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	174.84	113.31
Reserve Position	0.31	0.20
Holdings Exchange Rate		

III. SDR Department:	SDR Million	%Allocation
Net cumulative allocation	14.09	100.00
Holdings	0.73	5.17

IV. Outstanding Purchases and Loans:	SDR Million	%Quota
Stand-by Arrangements	20.83	13.50

V. Latest Financial Arrangements:

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

VI. Projected Payments to Fund (Expectation Basis)

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

	Forthcoming				
	2007	2008	2009	2010	2011
Principal	5.21	15.62			
Charges/Interest	0.45	1.07	0.53	0.52	0.52
Total	5.66	16.69	0.53	0.52	0.52

VII. Implementation of HIPC Initiative: Not Applicable

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

X. Exchange Rate Arrangement:

Gabon is a member of the Central African Economic and Monetary Community (CEMAC). The common currency, the CFA franc, is pegged to the euro at a fixed rate of CFAF 655.957= €1. Gabon does not have a separate legal tender.

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

XI. Article IV Consultations:

- (a) Gabon is on the standard 12-month Article IV consultation cycle.
- (b) The last Article IV consultation with Gabon was concluded by the Executive Board on June 5, 2006 (IMF Country Report No. 06/238).

XII. FSAP Participation:

A national module for Gabon of the joint IMF/World Bank Financial Sector Assessment Program (FSAP) was completed in 2002 and was discussed by the Executive Board in March 2002 (IMF Country Report No. 02/98). A regional FSAP module for the CEMAC was completed in 2006 and was discussed by the Executive Board in March 2002 (IMF Country Report No. 06/321).

XIII. Technical Assistance:

Department	Purpose	Time of Delivery
FAD	Review customs reform and assessment of TA needs	Nov. 2007
STA	National accounts and price statistics	Oct. 2007
STA	Consumer Prices/Producer Price Statistics	Sep. 2007
FAD	Design and implementation of treasury plan	Jun. 2007
MCM	Bank supervision	Jun. 2007
FAD	Poverty and social impact analysis of fuel subsidies reform	Jan. 2007
FAD	Fiscal ROSC	Mar./Apr. 2006
FAD	Budget management	Mar. 2004
FAD	Tax policy and administration	Nov. 2003
LEG	Law against illicit enrichment	Jun., Jul. and Oct. 2003
FAD	Budgetary procedures and expenditure control	Nov. 2000
STA	Multisector statistics mission	May 1998
FAD	Value-added tax administration issues	Aug. 1997

XIV. Resident Representative:

The Fund maintains a resident representative office in Libreville. The current resident representative, Mr. Thiam Samba, assumed his post in 2007.

ANNEX II. RELATIONS WITH THE WORLD BANK

(Updated as of November 1, 2007)

1. Gabon is one of Africa's few IBRD countries, with GNI per capita of US\$ 4,130 in 2004. The Bank is working closely with the IMF team to support structural measures, particularly for the development of the forestry and local private sectors in urban areas; and to support the implementation of the Government's Growth and Poverty Reduction Strategy (GPRSP).

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 and a CAS progress report will be issued in December 2007. 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. In 2007, responding to the Government's request, the lending limit for investment operations has been expanded by US\$75 million for infrastructure projects.

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. In 2007, Gabon was selected as one of the pilot countries, under the initiative of the World Bank's managing director Daboub and the Fund's First Deputy Managing Director Lipsky for strengthened collaboration between the two institutions in the area of management of natural resources. Discussions between the Bank and Fund teams and the Gabonese authorities on specific projects under the Lipsky-Daboub initiative are ongoing.

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. Forestry and other natural resources. In November 2005, the Bank's board approved a \$15 million Natural Resources Management Development Policy Loan (DPL) 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. The 2007 CAS progress report finds that the high-case triggers to move to a second Natural Resource Management DPL have been met, although it will be sequenced to follow the disbursement of the second tranche of the DPL1. However, given the delays in the implementation of the first DPL, it is not expected that the second project will be in place by the end of FY2009.

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 and financial database is fairly comprehensive. 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. However, there are concerns about the accuracy and reliability of the data, as well as the adequacy of its periodicity and timeliness. While data provision for surveillance purposes is still adequate overall, staff's analysis was affected by shortcomings in certain areas. The compilation of national accounts, balance of payments, government finance, and monetary and financial statistics generally follows dated international statistical methodologies, and consistency between the sectoral datasets is problematic. Gabon is a participant in the General Data Dissemination System (GDDS), but has not updated the metadata regarding its national statistical systems, including plans for improvement since 2002. 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. National accounts are compiled according to the 1968 System of National Accounts, with constant (1991) prices. 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. In 2007, the authorities began publishing a new and improved CPI index, which covers the same basket of goods and services as the Central African Economic and Monetary Community (CEMAC) Harmonized Consumer Price Index (HCPI) and uses a weighting scheme

derived from Gabon's 2005 household expenditure survey.⁹ However, it still only covers the capital city of Libreville.

Government finance statistics

6. Neither central nor general government finance statistics (GFS) are reported to STA, and there has been no technical assistance in GFS in recent years, thus compilation of GFS data is likely based on the 1986 GFS manual. A key shortcoming is the limited coverage, as, among other things, the social security operations are not included in the available data. In addition, the audited accounts of oil sector operations are not published with adequate periodicity (at least quarterly) or timeliness, 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 CEMAC member states, 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 17 percent of its notes, most of which go to Cameroon (12 percent) and to the Republic of Congo (3 percent).

9. The BEAC started recently a project to migrate monetary statistics of member countries of the CEMAC from the methodology presented in the 1984 *Monetary and Financial Statistics Manual (MFSM)* to that of the 2000 *MFSM*. As part of this project, a regional meeting in December 2007 is to finalize the mapping of source data from commercial banks to the *MFSM* concepts and framework; a STA staff member will participate in the meeting.

External public debt

10. There are comprehensive data on the outstanding stock of external public debt and its composition, together with detailed projections on debt service due. These data are provided

⁹ The old CPI index covered only the capital city of Libreville, was based on an outdated expenditure survey from 1975, and attached a large weight to food and basic consumer goods prices.

(usually to Fund missions) by the General Directorate of Public Debt and Accounting (*Direction générale de la comptabilité publique*) of the Ministry of Economy, Finance, Budget, and Privatization.

Balance of payments and trade statistics

11. The balance of payments data for Gabon is compiled by the national directorate of the BEAC with the estimates validated by staff from the BEAC headquarters. Balance of payments data are disseminated with considerable delays. At present, the latest available official statistics are for 2004. Since 1995, the compilation of balance of payments statistics has been in accordance with the fifth edition of the Balance of Payments Manual. Source data is collected 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. External trade data are mostly based on estimates, which are not cross-checked with customs data. The reliability and accuracy of other items of the current account is low due to the low response rate to the enterprise surveys, despite 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 December 13, 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	9/30/07	12/13/07	M	M	M
Reserve/Base Money	9/30/07	12/13/07	M	M	M
Broad Money	9/30/07	12/13/07	M	M	M
Central Bank Balance Sheet	9/30/07	12/13/07	M	M	M
Consolidated Balance Sheet of the Banking System	9/30/07	12/13/07	M	M	M
Interest Rates ²	7/31/07	10/16/07	M	M	M
Consumer Price Index	Sept. 2007	12/11/07	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴	9/30/07	12/11/07	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ³ – Central Government	9/30/07	12/11/07	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	07/31/07	10/1/07	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	2006	10/1/07	A	I	A
Gross External Debt	07/31/07	10/1/07	Q	I	I

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

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

³Foreign, domestic bank, and domestic nonbank financing.

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

⁵Including currency and maturity composition.

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



Press Release No. 07/300
FOR IMMEDIATE RELEASE
December 19, 2007

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes First Review Under Gabon's Stand-By Arrangement

The Executive Board of the International Monetary Fund (IMF) today completed the first review of Gabon's economic performance under a three-year SDR 77.15 million (about US\$120.8 million) Stand-By Arrangement.

The Executive Board approved Gabon's request for waivers for the nonobservance of the performance criteria on the implementation of the fuel price adjustment formula and of the September ceiling on net bank credit to government. The Executive Board also approved the modification of the performance criterion on the implementation of the fuel price adjustment formula.

The Gabonese authorities have indicated that they intend to treat the arrangement as precautionary. The Executive Board of the IMF approved the Stand-By arrangement on May 7, 2007 ([See Press Release NO 07/88](#)) to support the country's economic program.

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

“The performance of the Gabonese economy has been robust, underpinned by prudent macroeconomic policies and progress on structural reforms. Non-oil growth will likely exceed 6 percent, and oil production has rebounded marginally after a significant decline in 2006. Inflation is decelerating, after a spike caused by the one-off increase of domestic fuel prices and rising international food prices. The balance of payments is likely to record a strong surplus, while the fiscal deficit has been kept under control.

“The short-term outlook remains favorable with strong economic growth, low inflation, and large fiscal savings from high oil revenue. The main risks are a weakening world economy and increasing domestic pressure to ease fiscal policy.

“The authorities are committed to the gradual adjustment of the fiscal stance toward long-term sustainability. The 2008 budget submitted to Parliament is consistent with this

objective. In addition, the completion of the buyback of most of Gabon's debt to the Paris Club, expected in January, should reduce debt service payments over the medium term, improve debt sustainability and further strengthen the fiscal outlook.

“Improved control over current non-priority spending, especially fuel subsidies, will be critical to the success of the authorities' fiscal efforts and of their targeted actions to reduce poverty. Looking ahead, the implementation of the formula for adjusting fuel product prices to reflect recent increases in international prices will contribute importantly to this effort.

“Improved competitiveness and economic diversification will depend on further structural reforms. Enhancing the investment climate by strengthening governance and increasing transparency, as well as by lifting the temporary price controls, will remove constraints to the growth of nonoil activity,” Mr.Portugal said.

**Statement by Laurean Rutayisire, Executive Director for Gabon
December 19, 2007**

On behalf of my authorities, I would like to thank Management, the Board and Staff for their continued advice and support in the implementation of Gabon's economic program. The staff report before you describes accurately the achievements to date, the challenges to overcome going forward, and the policies that my authorities intend to implement in this regard.

I. Recent developments

The first half of the year was characterized by robust non-oil activity, notably in the mining, forestry, wood processing and agro-industries sectors. This momentum, which appeared to have been maintained in the second semester, should lead to a non-oil growth of 6.4 percent in real terms in 2007. Overall real GDP growth is expected to be lower at 5.9 percent as oil production is likely to recover slowly and grow by 3.1 percent. Rising prices of petroleum products and foodstuffs resulted in an inflation of 6.4 percent in May 2007 before declining to 4.4 percent in August 2007. Despite the sharp rise in imports, the balance of payments is projected to remain in a healthy surplus, and foreign exchange reserves to rise to cover 5.2 months of imports by year-end.

The **fiscal performance** at end-September 2006 has been satisfactory. A cautious budget execution during this period resulted in a non-oil primary deficit of 9 percent of non-oil GDP, slightly below the program target. A sustained effort to raise non-oil revenue and strict expenditure management should allow the government to meet the 2007 deficit target of 11.6 percent of non-oil GDP, down from 18 percent in 2006.

Significant progress has been made in strengthening **public financial management**. In particular, the government has improved coordination between the ministries of finance and planning in preparation of the budget for 2008. Cooperation with spending ministries has also been improved through the use of medium-term expenditure frameworks (MTEF) to reflect the objectives of the PRSP for priority sectors. The public procurement system is more efficient with the share of public contracts awarded on a competitive basis rising to 69 percent in the first half of 2007, well above the 50 percent target set for the year. The revenue administration is being strengthened with the submission of the new general tax code to Parliament a few months ago and the preparation of an oil model with the assistance of an international audit firm.

The fiscal program had to be adjusted to accommodate higher-than-programmed fuel subsidies. Indeed, Directors will recall that before the approval of the current SBA last May, petroleum prices were increased by 25 percent in order to reduce fuel subsidies. The social pressures sparked by this sharp price increase compelled the government to keep fuel prices

unchanged, instead of applying the **automatic price adjustment formula** envisaged in the program. Nevertheless, my authorities have been working on the petroleum price structure to distinguish the price support to the consumers from the production support to the refinery SOGARA. Before end March 2008, the government will reflect the changes in oil product import prices since September 2007 in retail prices, as determined by the price adjustment formula.

On the **monetary front**, the BEAC intervened to slow growth in the monetary aggregates in Gabon. In March 2007 it increased the reserve requirements for banks in Gabon from 7.75 percent to 10.25 percent on demand deposits, and from 5.75 percent to 8.25 percent on term deposits. The BEAC has also accepted remunerating deposits of commercial banks at 1.95 percent. As a result of these measures, annual growth in the money supply slowed to 12 percent in June 2007. However, due to an acceleration of domestic debt payments, net bank credit to the government was higher than expected at end-September 2008.

Turning to **debt management**, the Gabonese government reached an agreement in principle with Paris Club creditors in July 2007 on early repayment of the debt at market value, representing a discount of about 15 percent from face value. To finance the repayment, my authorities are in the process of issuing bonds in the international capital markets. The first bond, involving a US\$ 1 billion 10-year bullet bond was issued on December 5, 2007, with a coupon rate of 8.2 percent. The rating agencies Standard and Poor's and Fitch have given Gabon's sovereign debt a credit rating of BB- and the bond attracted orders in excess of US\$2.4 billion, demonstrating foreign investors strong confidence in the country's economic policy. On December 10, the government issued a second bond -a CFAF 100 billion 6-year bond with a coupon rate of 5.5 percent-on the CEMAC regional market. The remainder of the financing is to be covered by Gabon's own reserves. My authorities expect that the Executive Board approval of this review will send a signal that would further mobilize investors' interest in the country's bond issues. I would like to reassure Directors that my authorities intend to pursue a sound debt management through prudent borrowing policy.

Overall, the **program performance** has been satisfactory with all performance but two criteria for June and September 2007 observed, and all the structural benchmarks met, though with some delays. As noted above, the performance criteria on the application of the automatic petroleum price-setting mechanism and on net bank credit to the government were not observed, and in light of the corrective measures taken to preserve the fiscal targets for 2007 and 2008, my authorities are requesting waivers for these two criteria. In light of this overall performance, my authorities request the completion of the first review under the SBA.

II. Program for the remainder of 2007 and for 2008

My authorities would like to reiterate their commitment to pursuing the necessary economic policies and reforms to achieve sustainable growth and reduce poverty in Gabon while addressing the challenges associated with the anticipated decline in oil production. They forecast a non-oil GDP real growth of 4.7 percent in 2008, driven primarily by forestry, wood industry, and services. Oil output is expected to rise by 2.4 percent as new fields come on stream. Average annual inflation should decline to 3 percent, which is the CEMAC convergence criterion. The balance of payments is expected to remain comfortably in surplus, thanks to sustained oil, mining, and forestry exports.

The **fiscal program in 2008** aims to bring the non-oil primary deficit down to 10 percent of non-oil GDP, as agreed in the medium-term program, through continued improvement in non-oil revenue and strict expenditure management. Oil revenue is expected to rise slightly in nominal terms and my authorities will continue with their policy to save oil revenue surpluses. The budget for 2008 which is consistent with the program has been adopted by the National Assembly last month and by the Senate a few days ago.

My authorities will press ahead with their **public financial management reform**, which is one of the main objectives of the program. In particular, they will continue to improve budget preparation and execution, strengthen revenue administration and raise the quality of spending of public spending. Directors will have seen that structural conditionality for the second review is mainly related to this reform.

While my authorities welcome the recent dynamism of the non-oil private sector, they are aware that this dynamism will diminish if adequate **structural reforms** are not undertaken to sustain it. Accordingly, they intend to work with the private sector to discuss a broad framework for implementing and monitoring measures to enhance the productivity and diversification of the economy. A proper competitiveness study to be completed by July 2008 will identify the constraints -particularly the lack of infrastructure- to non-oil sectors that have good potential for exports and job creation. As part of this study, the government will determine how best to encourage competition in some sectors. The government also expects that its reforms in the forestry sector, in particular the easing of restrictions on exports of okoumé logs, will result in more robust activity and exports.

On the **restructuring of public enterprises**, a foreign company has been granted a 25-year concession to improve operations in Gabon's two major ports. Regarding already privatized enterprises, the government granted a 15 percent increase in electricity tariffs over the 18 months to relieve the financial difficulties of the electricity and water company, SEEG in 2007. These difficulties stemmed mainly from the inability of the tariff-setting mechanism to accommodate changes in some electricity-generating costs. Both parties agreed to set up an ad hoc commission that will undertake a thorough review of the 10-year old concession.

Following the Constitutional Court's dismissal of legal actions against the privatization Gabon Telecom and the completion of the audit of its 2006 accounts, the procedure for divesting the government of its majority ownership in Gabon Telecom to the private investor selected early this year will be concluded shortly.

On **transparency**, my authorities intend to publish by year-end the EITI report for 2006. The report will identify and explain discrepancies between oil payments received by the government and reported to the EITI and oil revenue recorded by the treasury. The government will continue with its policy of publishing relevant documents such as budget law and audits on the website of the Ministry of Economy and Finance.

The government will support the work of the regional banking supervisors to ensure that banks observe prudential ratios. It will also work with other governments in the CEMAC to pursue establishment of a regional **treasury bill market**. Such a market would offer banks better liquidity management opportunities and would give the BEAC a market-based instrument to manage monetary policy.

III. Conclusion

The satisfactory implementation of the program under the SBA demonstrates my authorities' continued commitment to their ambitious adjustment program. My authorities would like to reaffirm their determination to implement prudent policies going forward and keep the program on track, as indicated in their letter of intent. They are hopeful that the international community will continue to support their efforts. In this regard, I would like to request the support of Executive Directors for today's proposed decision.