INTERNATIONAL MONETARY FUND

IMF Country Report No. 15/47

GABON

February 2015

2014 ARTICLE IV CONSULTATION—STAFF REPORT; PRESS RELEASE; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR GABON

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2014 Article IV consultation with Gabon, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on February 18, 2015, following discussions that ended on January 15, 2015 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 February 2, 2015.
- A **Debt Sustainability Analysis** prepared by the IMF.
- An **Informational Annex** prepared by the IMF.
- A **Press Release** summarizing the views of the Executive Board as expressed during its February 18, 2015 consideration of the staff report that concluded the Article IV consultation with Gabon.
- A **Statement by the Executive Director** for Gabon.

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

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INTERNATIONAL MONETARY FUND

GABON

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION

February 2, 2015

KEY ISSUES

Context: Despite the abundance of natural resources and one of the highest levels of income per capita in sub-Saharan Africa for several decades, poverty remains widespread and unemployment is high. Weak institutions and governance, a shallow financial sector, and a poor business environment have been obstacles to transforming the oil wealth into better living conditions for the population. In 2010, after a long period of lackluster growth, the authorities launched an ambitious strategic vision—*Plan Stratégique Gabon Emergent* (PSGE)—to transform Gabon into a diversified emerging market economy by 2025. The resulting scaling up in public investment significantly accelerated economic growth, but also substantially weakened the fiscal stance. As a key member of the CEMAC currency and economic union, Gabon's economic policies have significant regional implications and spillovers.

Risks: In the context of the recent sharp decline in oil prices, the foremost downside risk to the economic outlook in the short to medium term is an inadequate fiscal adjustment, leading to further depletion of fiscal buffers, rapid debt accumulation, and insufficient fiscal space to address binding constraints to growth.

Key policy recommendations

The oil price shock underscores the need for faster fiscal adjustment and acceleration of structural reforms:

- **Fiscal Policy.** The fiscal stance should aim at adjusting to low oil prices to avoid a rapid escalation of public debt levels and accumulation of arrears. On the revenue side, there is need to compensate for declining oil revenues by widening the tax base, notably by reducing tax exemptions and improving tax administration. The main focus should be on the expenditure side by controlling the rapidly increasing wage bill and phasing out costly oil subsidies. The emphasis should be on improving the quality of investment, rather than increasing its level.

- **Structural Policies.** Promote inclusive growth, structural transformation and economic diversification by focusing on "horizontal" binding constraints to growth such as infrastructure bottlenecks especially in transportation and electricity, as well as enhancing the business environment, improving the quality of education and vocational training to reduce the skills mismatch on the labor market, and reforming the legal and regulatory framework to support employment creation in the private sector.

- **Financial Sector.** Promote financial deepening and access by improving the institutional environment for credit, especially for SMEs, and enhancing access to microfinance and other financial services for households. Implement plans to restructure the three public banks in financial difficulty. Policies should be consistent with CEMAC regional financial sector development and stability objectives.

Approved By
Anne-Marie Gulde-Wolf and Dhaneshwar Ghura

Discussions were held in Libreville during October 22–November 5, 2014. Additional discussions took place in mid-January 2015 by video conference. The mission comprised Messrs. Mlachila (head), Salinas, Ms. Pouokam (all AFR), and Ms. Hacibedel (FIN). Mr. Tsouck Iboundé (World Bank) participated in the meetings. The mission had constructive discussions with Mme. Rose Rogombé, President of the Senate; Mr. Daniel Ona Ondo, Prime Minister; Mr. Régis Immongault, Minister of Economy, Investment Promotion and Prospective; Mr. Christian Magnagna, Minister of Budget and Public Accounts; Mr. Etienne Ngoubou, Minister of Oil and Hydrocarbons; Mr. Christophe Akagha-Mba, Minister of Mining, Industry and Tourism; Mr. Denis Meporewa, National Director of the BEAC; Members of the Finance Committees of the National Assembly and the Senate; and other senior government officials. The mission also exchanged views with representatives of the private sector, civil society, and development partners.

CONTENTS

TABLES

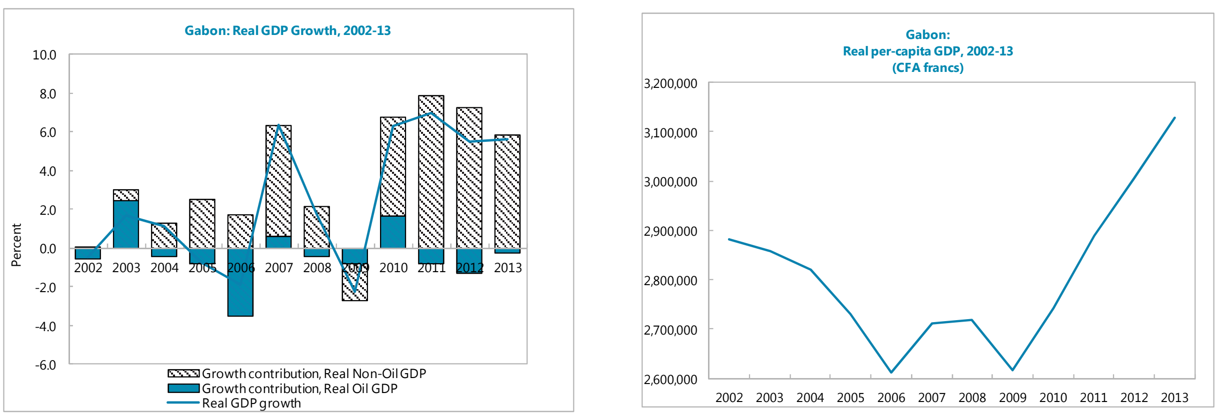
ANNEX

APPENDICES

BACKGROUND: STRATEGY TO REVERSE ECONOMIC AND SOCIAL DECLINE

1. Despite oil wealth, economic growth for most of the past 15 years has been lackluster and has not been inclusive. Real GDP growth averaged less than 1 percent in the decade through 2009 (Figure 1). As a result, despite relatively high per capita GDP (US$11,100 in 2013), one third of the population remains below the poverty line and (formal) unemployment is at 20 percent. While the political environment has remained stable, weak institutions and governance, a shallow financial sector, and a poor business environment have been obstacles to transforming the oil wealth into better living conditions for the population. Against this backdrop, President Ali Bongo Ondimba launched in 2010 an ambitious plan to transform Gabon into an emerging and diversified economy by 2025, underpinned by a large US$12 billion public investment program.

Figure 1. Growth Performance

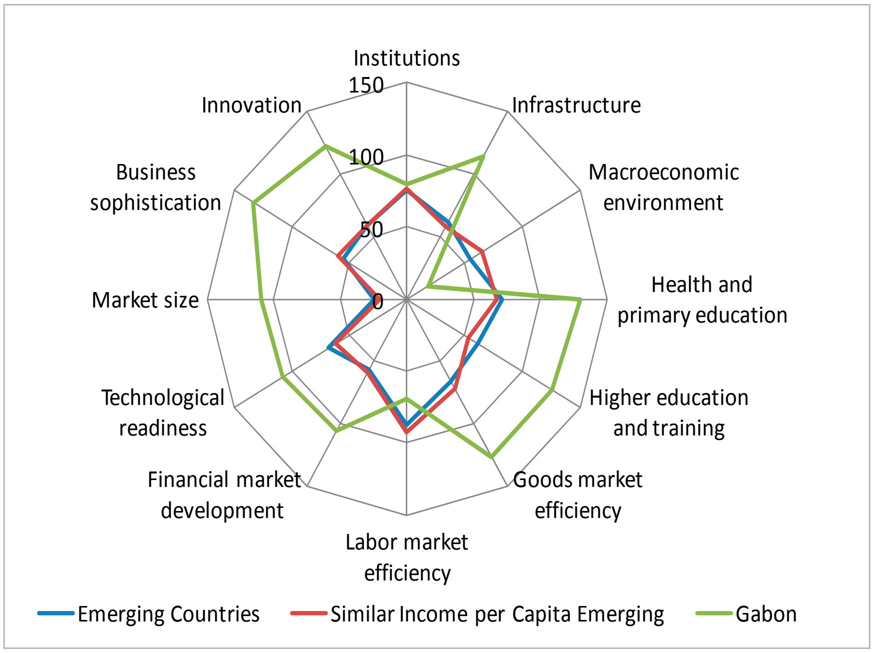


Sources: IMF and Gabonese Authorities.

2. The *Plan Stratégique Gabon Emergent* (PSGE) is the cornerstone of the authorities' economic policies. The plan's objectives are to: (i) significantly accelerate economic growth and diversify its sources away from oil; (ii) improve social indicators by having more inclusive and job-rich growth; and (iii) ensure sustainable management of natural resources for future generations. The two main pillars of the strategy are to improve the level and quality of infrastructure, and to raise the quality of human capital.

3. Despite its upper middle-income country status, Gabon fares poorly in areas that are critical to the success of the PSGE. Figure 2 and Text Table 1 compare Gabon to other emerging economies on several indicators, including the business environment and financial market development.[1] As seen in Figure 2, Gabon ranks considerably lower than its comparators in most determinants of competitiveness, and does poorly in basic aspects such as infrastructure, health, and education. Comparisons of financial indicators show that emerging countries have considerably more financial depth and market access than Gabon (Text Table 1).

Figure 2. Global Competitiveness Index Comparison, 2014–15
(Position in the Ranking)



Sources: World Economic Forum and IMF Staff estimates.

4. **Gabon is the second largest economy in the CEMAC monetary and economic union, and its policies have significant spillover effects to the union**. This is notably the case regarding the accumulation of external reserves, since Gabon's large oil wealth is a major source of foreign exchange to the union. Representing over one fifth of CEMAC's nominal GDP, the evolution of the Gabonese economy is bound to have significant effects over the rest of the region. Furthermore, a successful, fiscally sustainable implementation of Gabon's diversification plan would not only be a valuable model for other countries in the region that are aiming to foster non-oil growth, but the resulting improvement in Gabon's roads and telecommunications infrastructure could foster the region's integration

[1] This report uses the IMF's WEO definition of emerging market economies. The main criteria used by the WEO to classify emerging markets are: (1) per capita income level; (2) export diversification; and (3) degree of integration into the global financial system.

and connection to the rest of the world.[2]

Text Table 1. Financial Sector Indicators: Gabon and Emerging Countries

		2011–13
NPL/loans	Emerging Countries	4.6
	Emerging Countries Similar Income per Capita	4.5
	Gabon	3.8
Private credit bureau coverage (% of adults)	Emerging Countries	43.7
	Emerging Countries Similar Income per Capita	63.3
	Gabon	0.0
Account at a formal financial institution (% age 15+) 1/	Emerging Countries	47.5
	Emerging Countries Similar Income per Capita	53.3
	Gabon	18.9
Commercial bank branches (per 100,000 adults)	Emerging Countries	20.1
	Emerging Countries Similar Income per Capita	22.7
	Gabon	6.6
Strength of legal rights index (0=weak to 12=strong)	Emerging Countries	5.3
	Emerging Countries Similar Income per Capita	5.7
	Gabon	6.0
Domestic credit to private sector by banks (% of GDP)	Emerging Countries	61.2
	Emerging Countries Similar Income per Capita	57.5
	Gabon	11.2
Borrowers from commercial banks (per 1,000 adults)	Emerging Countries	296.3
	Emerging Countries Similar Income per Capita	378.2
	Gabon	37.7

Sources: World Development Indicators and IMF Staff calculations.
1/ Refers to 2011 data only.

GROWTH HAS IMPROVED, BUT NEAR TERM RISKS HAVE INCREASED

5. **Gabon's growth performance has recently been strong, but fiscal pressures increased significantly.** Real GDP growth has averaged about 6 percent in the last four years on the back of substantial scaling-up of public investment (Figure 3). Higher oil and manganese export prices have improved the external current account balance since 2010. However, the fiscal position has increasingly come under pressure due to a very rapid increase in spending, especially on investment, notwithstanding historically high oil prices. By 2013 the overall budget surplus (commitment basis) had

[2] For example, a recent enhancement in internet connection in Libreville through a submarine fiber optic cable is now to be extended to a connection point on the border with the Republic of Congo and will ultimately create a broadband artery linking the entire region.

virtually disappeared from a high of about 6 percent of GDP in 2009. Due to base effects in 2013, average inflation has increased in 2014 to a projected 4½ percent.

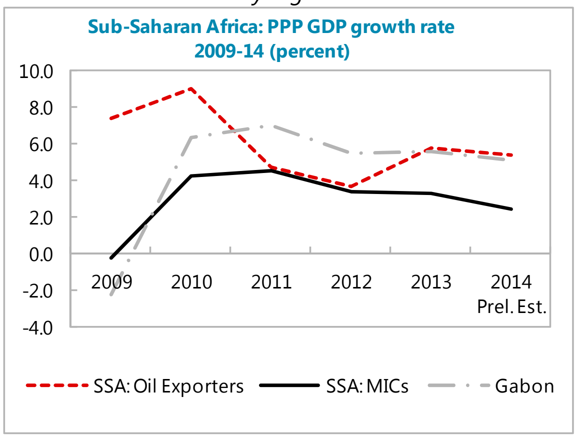
6. The growth outlook for 2015 has weakened due to the oil price shock, but should improve afterwards. Thus, while 2015 growth is projected to slowdown to 4½ percent, it should average about 5.7 percent in the following five years, driven by public investment, non-oil natural resources, and services. The gradual decline in oil output—which is driven by maturing wells—will likely continue in the coming years[3], but may potentially be somewhat mitigated by the introduction of new extraction technologies and new small-scale discoveries. A number of projects underway at Special Economic Zones (SEZs) in agro-industry, mining, and wood processing, should help sustain the projected non-oil growth.

7. The foremost downside risk to the economic outlook in the short to medium term is an insufficient adjustment to fiscal policy in the face of extremely weak oil prices, and weak investment execution capacity. This could lead to further depletion of fiscal buffers and insufficient fiscal space to address binding constraints to growth (see Risk Assessment Matrix), which could depress both aggregate demand and supply. In the longer run, there is upside potential to raise growth if the PSGE rapidly succeeds in its objectives of reducing "horizontal" binding constraints, such as infrastructure bottlenecks, lack of qualified labor, and a weak business environment. In fact, the diversification strategy is starting to bear fruit in attracting new FDI in mining, wood processing, and agro-industry. The baseline assumes a somewhat higher growth rate toward the end of the projection period, in part driven by increased FDI. The baseline projections also assume implementation of additional fiscal adjustment beyond what the authorities currently envisage. If fiscal adjustment is insufficient or delayed, the lack of sufficient fiscal space could derail the diversification strategy toward a more private sector-led growth (see Figure 4). With the projected trend decline in oil exports, the external current account surplus is expected to turn negative over the medium term.

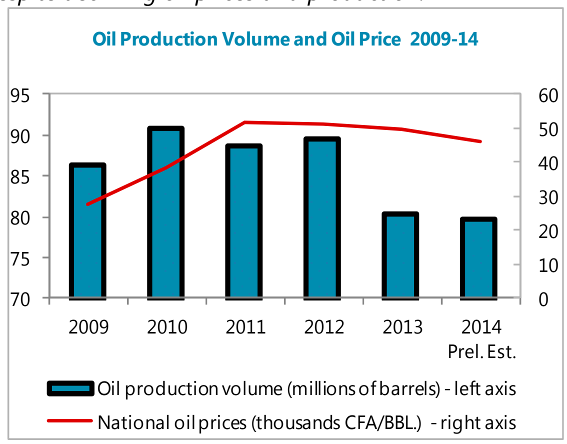
[3] The significant decline in 2015 is in part driven by large-scale rehabilitation of some wells.

Figure 3. Gabon: Selected Economic Indicators

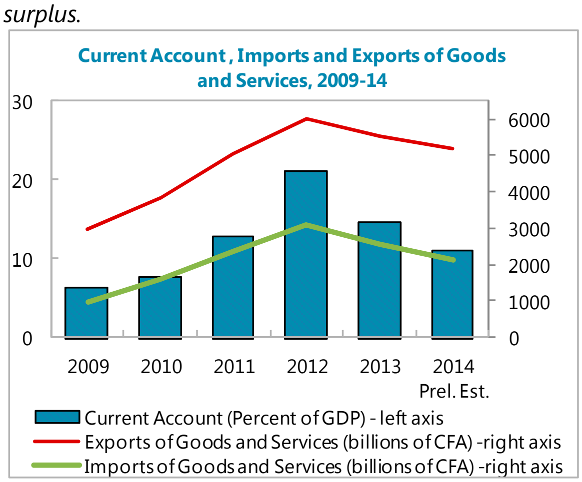
Growth remains relatively high since the PSGE launch...



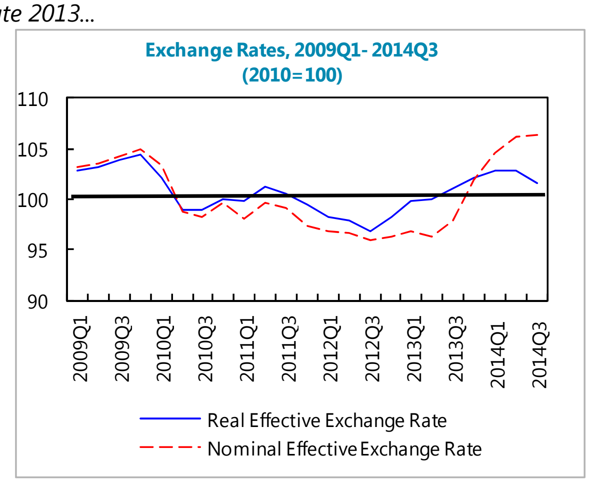
...despite declining oil prices and production.



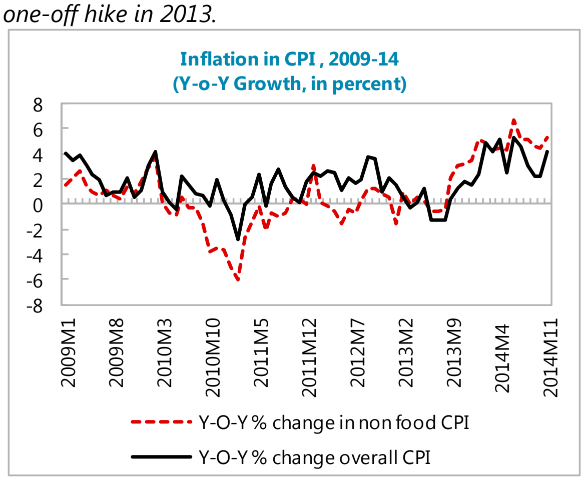
Falling oil exports are narrowing the current account surplus.



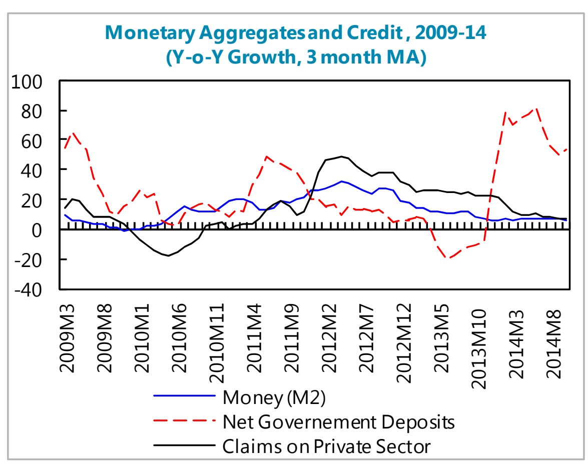
The nominal effective exchange rate has appreciated since late 2013...



...while year-on-year inflation has increased after a one-off hike in 2013.

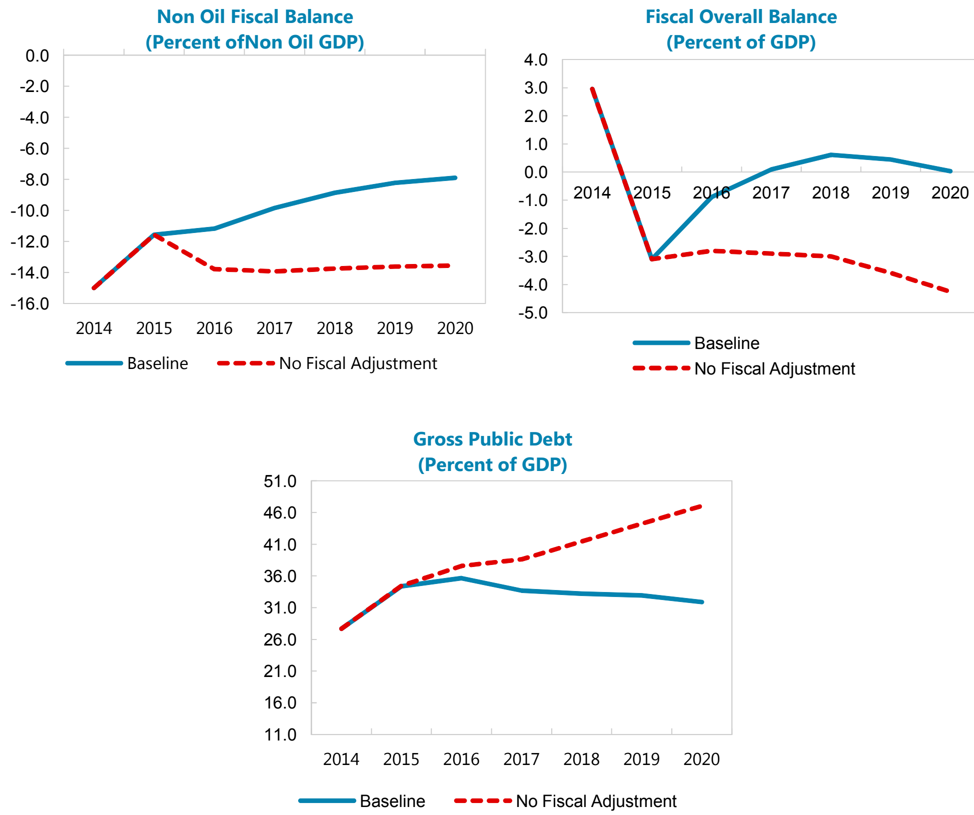


Credit to the economy and M2 are moderating after a two years of high growth.



Sources: IMF and Gabonese Authorities.

Figure 4. No Fiscal Adjustment Scenario[1], 2014-2020



Sources: IMF Projections

[1] With respect to the baseline scenario, the "No Fiscal Adjustment Scenario" assumes: (i) a lower increase in non-oil revenues because tax exemptions are not significantly eliminated; (ii) the fuel subsidy scheme is not reformed; (iii) other current spending items are not controlled and therefore grow in tandem with non-oil GDP throughout the projection period; and (iv) public investment also grows at the same rate as non-oil GDP from 2015.

8. Gabon's track record in implementing the recommendations of the last Article IV consultation has been relatively weak, with some progress made only recently (see Text Table 2). Gabon has not adopted an oil price-smoothing rule and fiscal buffers have not been rebuilt mainly due to continued high spending levels, especially on the wage bill and energy subsidies. However, during 2014 the authorities eliminated industrial diesel subsidies for most sectors and reduced the very high capital spending. They also reduced the number of days needed to open a business in SEZs, and have initiated the assessment of the financial situation of weak public banks.

Text Table 2. Gabon: Status of Implementation of Key Recommendations from the 2012 Article IV Consultation

Recommendation	Status
Build larger fiscal buffers	Not done; deposits at BEAC have continued o decline
Adopt oil price-smoothing rule for budget	Not done
Greater control of wage bill	Not done
Reduce fuel subsidies	Partly done; most industrial diesel subsidies eliminated in January 2014
Curb sharp increase in public investment spending	Done in mid-2014; spending cut by more than 50 percent
Improve business climate	Initial steps taken
Address financial situation of weak public banks	Initial steps taken

Sources: 2012 Article IV staff report on Gabon and information from the authorities.

ADJUSTING FISCAL POLICY TO ENSURE SUSTAINABLE FINANCING OF AUTHORITIES' GROWTH AND DIVERSIFICATION STRATEGY

9. Given the economic challenges facing Gabon, the Article IV consultation was centered on how to make the PSGE a reality while ensuring fiscal sustainability in the face of a major terms of trade shock. Specifically, the discussions focused on the following issues: (i) creating the fiscal space necessary to finance the PSGE on a fiscally sustainable basis, notably by keeping rapid public debt accumulation in check despite the collapse in oil prices; (ii) policies to strengthen competitiveness and promote economic diversification; and (iii) deepening the financial sector and enhancing financial stability.

A. Financing the PSGE on a Fiscally Sustainable Basis

Fiscal framework and policies

10. Despite historically high oil prices, in recent years the fiscal stance has substantially deteriorated as a result of a massive scaling up of public investment. The accelerated implementation of the PSGE led to a large increase in government expenditures from 38 percent of non-oil GDP in 2009 to 46.5 percent in 2013 (see Figure 5).[4] The non-oil primary deficit consequently increased from 11.7 to 19.6 percent of non-oil GDP between 2009 and 2013. The massive boost in public spending, in the context of gradually declining oil revenues, has been partly financed by a large increase in public debt from 16.5 percent of GDP in 2011 to 27.6 percent in 2013, statutory advances at the maximum permissible level and a rapid draw-down of deposits at the central bank in 2014, a significant accumulation of domestic payments and VAT arrears, and even some accumulation of external arrears.[5]

11. **The authorities recognized the tight fiscal situation, appropriately rectified their 2014 budget in order to scale down their investment program, and are finalizing a conservative 2015 budget assuming much lower oil revenues.** The revised budget approved by parliament in July 2014 sharply cut down capital spending with respect to the initial budget by an amount equivalent to 12 percent of 2014 non-oil GDP. Preliminary estimates indicate that the adjustment in 2014 resulted in an overall surplus of 4½ percent of non-oil GDP on a commitment basis that allowed the government to pay about CFAF 435 billion in arrears.[6] The authorities also recently implemented measures to speed up the reimbursement of the VAT. The most recent version of the 2015 budget to be sent to parliament conservatively assumes the price of Brent oil at US$45 per barrel, cuts down spending on goods and services with respect to 2014, substantially reduces oil subsidies, reschedules repayment of domestic arrears[7], and freezes the level of public investment. To protect capital spending, the government intends to issue a eurobond in 2015.[8] The staff report baseline scenario (see Tables 1-5 and Figure 7) incorporates the expenditures proposed in the latest 2015 budget, reduces by half the size of the eurobond issuance, and projects oil revenues based on a price of US$51 per barrel as per January 20, 2015 WEO assumptions. For 2016 onwards, the projections are based on staff's understanding of the authorities' planned medium-term policies, and present an adjustment scenario aimed at controlling public debt levels and ensuring repayment of arrears, mainly by containing the wage bill growth and considerably reducing oil subsidies.

[4] In assessing the quality of the scaling up of public investment it is worth noting that a considerable part of it was extra-budgetary and another significant amount was allocated to developing the infrastructure needed to host the African Cup of Nations in 2012.

[5] Non-accumulation of government arrears (domestic or external) is a CEMAC convergence criterion.

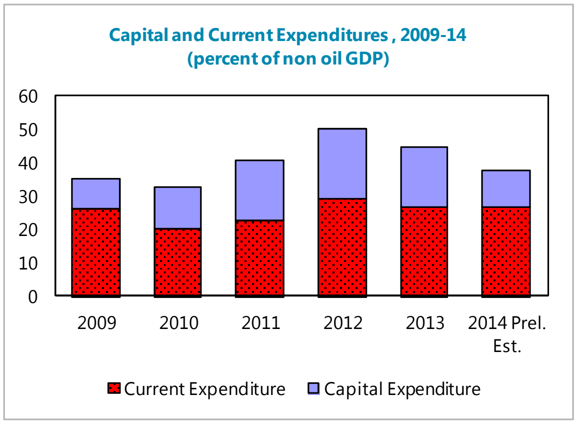
[6] Oil revenue performance was better than originally projected in part due to settlement of arrears and fines of over CFAF 190 billion.

[7] The authorities are negotiating the repayment of arrears over the next three years. They are committed to remain current on VAT reimbursements.

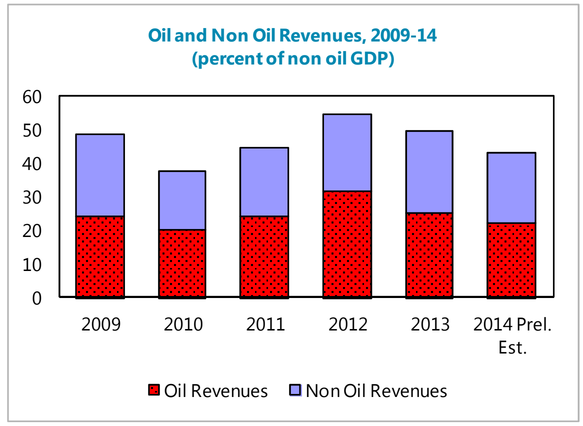
[8] The initial 2015 budget planned the issuance of a US$1 billion eurobond, but the authorities may revise down this amount in view of the tightening financing terms in international markets for Gabon (see Figure 3) and other oil producers.

Figure 5. Gabon Fiscal Indicators

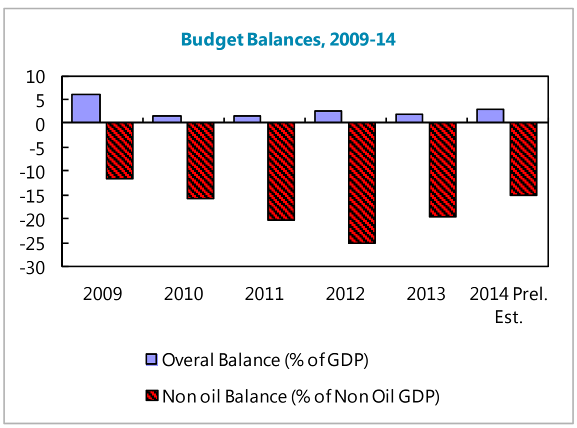
The PSGE translated into a major increase in public investment…



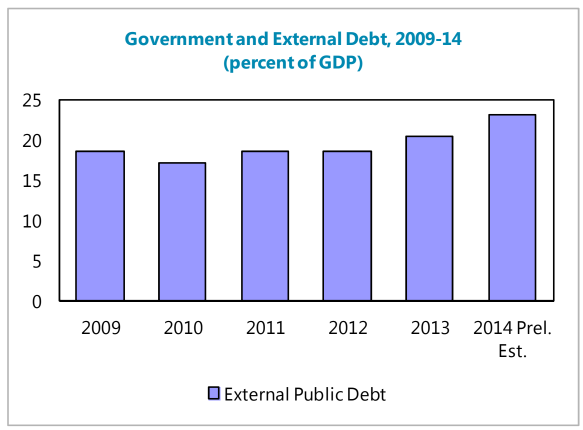
…in the context of falling oil revenues…



…eroding fiscal balances…



…and increasing the external debt.

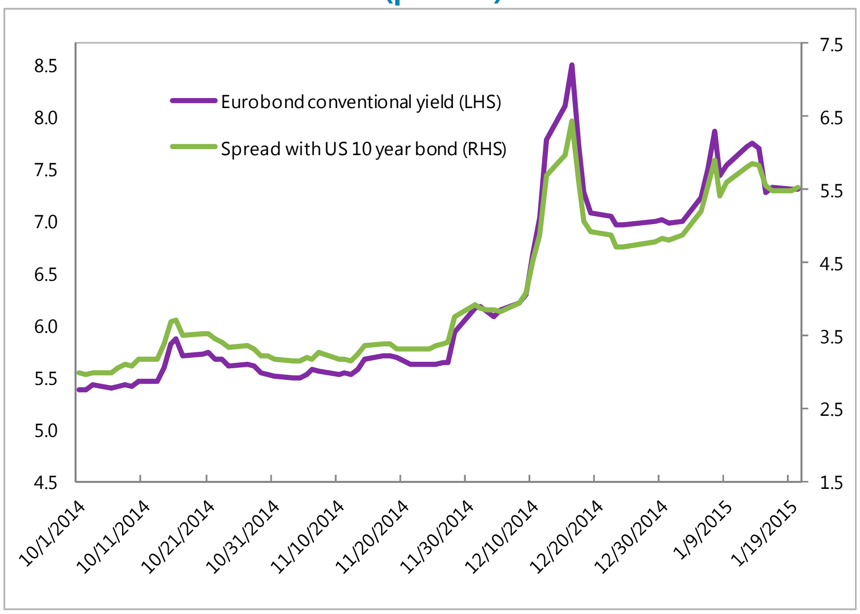


Sources: IMF and Gabonese Authorities.

12. **The substantial and continued decline in oil revenues will complicate the sustainable implementation of the PSGE, absent additional fiscal consolidation.** With oil prices forecast at half of their 2014 level and with Gabonese production continuing its declining trend, considerable fiscal adjustment is required. As seen in Figure 4, without adjustment the fiscal position would deteriorate sharply and debt levels would considerably surpass the government's own ceiling of 35 percent of GDP. Plans to finance the 2015 and 2016 deficit through international borrowing amidst a potential increase in global interest rates could be further complicated by negative prospects in the oil sector and the perception of a weakening fiscal situation. In fact, the spread of Gabon's 2013 eurobond has climbed about 200 basis points between end-November 2014 and mid-January 2015 (see Figure 6), and the regional bond market may also tighten as many oil exporters in the region are also seeking additional financing. The implementation of the PSGE itself could be endangered without the fiscal resources needed for many of its public and public-private investments. At the same time, even if projects under

the PSGE reach production stage in the medium run, generous tax concessions will significantly limit their potential contribution of net fiscal revenues anytime soon.[9]

Figure 6. Gabon 2013 Eurobond Interest Yield and Spread with 10 Year US Bond (percent)



Source: Bloomberg.

13. In this context, ensuring the fiscal sustainability of the PSGE requires revenue and spending measures upfront. The non-oil revenue tax base should be expanded, notably by reducing overly generous tax exemptions. On the spending side, the government should strictly contain growth in current expenditures, especially of the wage bill, and seize the opportunity provided by low oil prices to phase out the substantial and poorly targeted fuel subsidies (Appendix III), while protecting well-targeted spending on key social areas. The government should avoid any increase in spending beyond its current projections in the run-up to the 2016 elections. Staff's macroeconomic framework assumes the full implementation of these measures, and shows how capital spending can be gradually increased to finance the PSGE while accumulating currently low government deposits to protect the economy against exogenous shocks and without permanently violating the government's debt ceiling.[10,11] The government should further strengthen the legal environment to promote PPPs in order to help finance much-needed infrastructure, making sure the necessary safeguards are in place so as to avoid putting excessive risk on the government. Finally, staff recommends anchoring medium-term fiscal policy based

[9] Even if new oil explorations bear fruit, they will not reach production stage until the next decade.

[10] The proposed framework actually assumes that, given tighter financing conditions for oil exporters in the oil market, the authorities issue a US$500 million eurobond in 2015, not the previously planned US$1 billion. For 2016, the assumption is that Gabon will issue a US$250 million eurobond.

[11] Throughout the projection period, Gabon would be in compliance of CEMAC's convergence criteria, including the non-accumulation of government arrears criterion, which was violated in recent years.

on a nonoil primary deficit of less than 10 percent of GDP and an overall surplus of at least 2 percent of GDP, which would allow the authorities to progressively rebuild fiscal buffers.

14. Under the proposed staff scenario, public debt approaches the government's ceiling only temporarily and gradually declines afterwards, but shocks could considerably worsen the debt situation (see Debt Sustainability Analysis). Debt is expected to continue its rapid upward trend in 2015 and 2016 slightly exceeding the 35 percent of GDP ceiling in 2016, and gradually decline afterwards as the government further controls spending. External debt is also projected to increase up to 2016 and gradually decline afterwards. Lack of fiscal adjustment, GDP growth below projections, and/or shocks to government revenues would significantly accelerate public debt accumulation to bring it considerably above the government's ceiling. External debt could substantially rise if the non-interest rate current account deteriorates and the real exchange rate depreciates.[12] The destabilizing impact of the shock scenarios highlights the urgent need to accumulate fiscal buffers.

Authorities' views

15. Given the tight fiscal situation and the collapse of oil prices, the authorities recognized the need for further adjustment. In their view, the oil price shock has underscored the need to accelerate structural reforms to boost non-oil growth**.** While emphasizing the need to keep public debt below its conservative ceiling by limiting growth in current spending, they stressed the need to adequately finance their diversification strategy. In order to do so, the authorities agreed on the need to eliminate discretionary tax exemptions and progressively phase out fuel subsidies, while more forcefully controlling current expenditures after 2016. At the same time, they underscored the need to protect capital spending by shifting away resources from current spending, notably on goods and services. The authorities emphasized that they are also strengthening the PPP regulatory framework, as well as redoubling its tax collection effort. Revenue measures also include greater emphasis on risk-based audits and enhanced customs controls including the use of scanners, which will be facilitated by the survey of tax expenditure already undertaken by the authorities. To improve the credibility of the tax system, the authorities are committed to ensuring that they are current on VAT refunds.

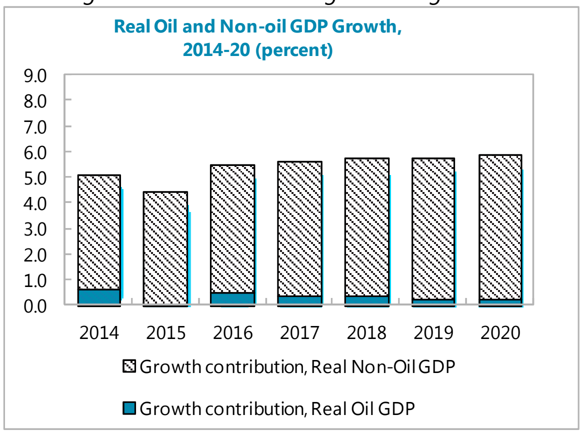
Public finance management issues

16. Ensuring the fiscal sustainability of PSGE requires continued efforts to improve the effectiveness and efficiency of government spending. A recent Public Expenditure and Financial Accountability (PEFA) assessment on Gabon found many deficiencies in its PFM system including: (i) low credibility of the budget due to frequent upward revisions and inadequate monitoring of arrears; (ii) weak accounting and financial reporting; (iii) insufficient monitoring and external audit, and lack of parliamentary review; (iv) weak internal controls; and (v) low transparency of budgetary transactions and of transfers to local authorities. On the positive side, the PEFA praised the fact that the annual budget is prepared in a participatory process and within a medium-term framework.

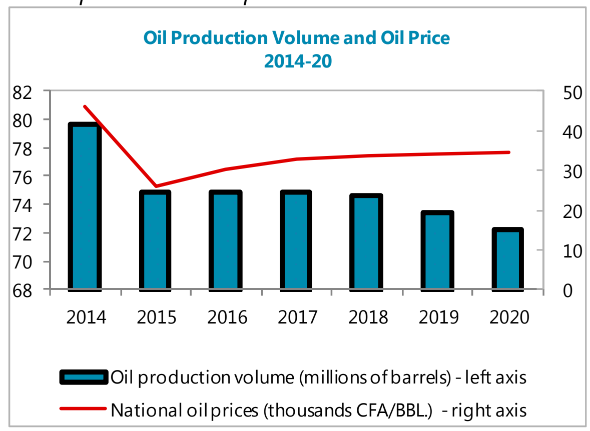
[12] The shock scenarios considered in the DSA could result from, for example, a decline in oil prices below WEO projections or a limited growth pay-off of the PSGE.

Figure 7. Gabon Medium Term Outlook, 2014–2020

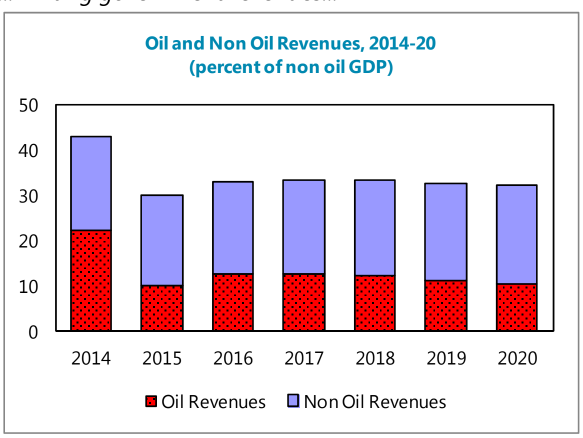
Non-oil growth will remain the growth engine…



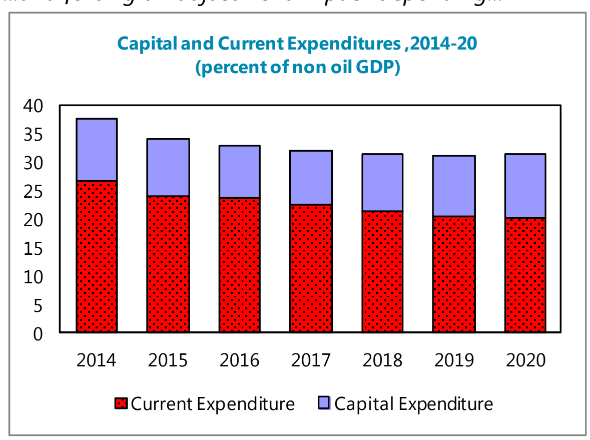
…as oil production and prices remain weak…



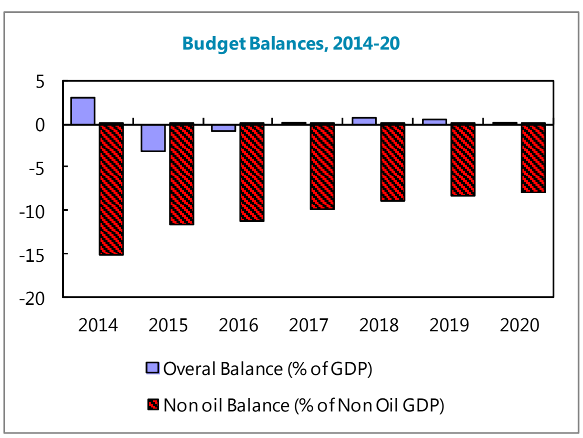
…limiting government revenues…



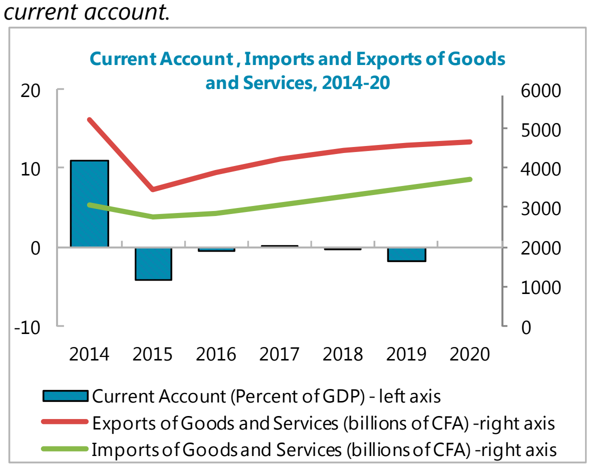
…and forcing an adjustment in public spending…



…so as to bring the fiscal balance back to surplus.



Declining oil exports will continue to weaken the current account.

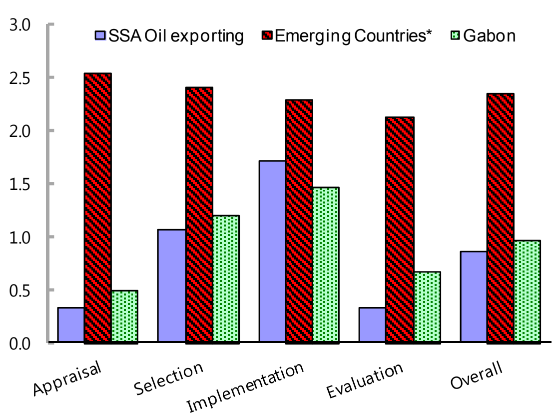


Sources: IMF and Gabonese Authorities.

17. Overall, the PEFA concluded that the PFM system remains outdated and relatively ineffective. There are gaps between budget transactions and accounting, delays in the expenditure chain, inadequate financial information systems, a chasm between payroll and personnel files, and weak ex-post internal controls. There is need to improve the quality of spending, especially for investment ("investing in investment") by enhancing the selection, execution and monitoring (Figure 8), as well as to curtail high extra-budgetary spending, which potentially leads to the accumulation of arrears, and to strengthen anti-corruption safeguards. These improvements should be facilitated by more manageable levels of investment.

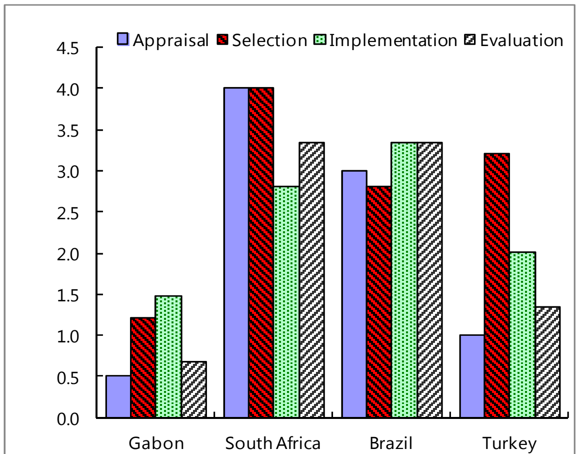
Figure 8. Public Investment Management Index, 2011

Public investment management lags significantly behind emerging countries...



Based on *Dabla-Norris, E. et al.* "Investing in Public Investment: An Index of Public Investment Efficiency" IMF Working Paper, 2011 (WP/11/37)
*Includes emerging countries for which this index is available, namely: South Africa, Brazil, Colombia, Thailand, Peru, Turkey, Philippines, Pakistan, Indonesia, and Egypt.

...including all those of a similar income per capita.



Based on *Dabla-Norris, E. et al.* "Investing in Public Investment: An Index of Public Investment Efficiency" IMF Working Paper, 2011 (WP/11/37)

18. An action plan should be developed to tackle weaknesses identified in the PEFA. The authorities should aim to: (i) improve the completeness of the transactions recorded in the state budget by fully integrating revenue and expenditure operations currently performed in cash on the accounts of the treasury; (ii) enhance financial supervision of public institutions; (iii) modernize the accounting functions to produce more reliable accounts within a reasonable time; and (iv) strengthen collaboration between revenue collection units (at the Ministry of the Economy) and spending units (at the Ministry of the Budget).

Authorities' views

19. The authorities expressed their determination to strengthen the PFM system and welcomed IMF assistance in this area. They also highlighted recent PFM reforms, such as the recent establishment of a single treasury account, the unification of customs and tax statements, and the ongoing process to introduce a "budgeting by program objective" (BOP, according to its initials in French), which should result in a budget implementation in program mode as of January 2015.[13] The law governing the budget in BOP mode should be adopted by end-2014. The authorities underscored their determination to increase transparency of natural resource revenues. To this end, they have adopted an action plan to become EITI-compliant during 2015. Regarding investment quality, the authorities highlighted their adoption of a public procurement code, a requirement to finalize technical studies underpinning specific investment projects before monetary outlays are made, and a requirement to effect payments only after proof of performance. They also note that Bechtel Corporation, a large construction and engineering multinational company, contributes to the design and monitoring of the implementation of PSGE infrastructure projects.

B. Improving Competitiveness for Economic Diversification and Structural Transformation

20. The PSGE aims to achieve greater economic diversification while moving up on the exports value-added chain. With oil-related GDP accounting for about 35 percent of GDP and oil exports accounting for about 80 percent of goods exports in 2014, and against the background of falling oil prices and aging oil wells[14], the authorities recognize the need to develop non-oil sectors (mainly agro-industry, wood processing, industrial fishing, and service exports). Overall, the PSGE has an ambitious target of creating 325,000 new jobs by 2025. According to value chain analyses conducted by the World Bank for agriculture, forestry, and tourism, key hurdles to the expansion of the non-oil economy include high transportation and labor costs, low labor productivity, and lack of craftsmanship and technical know-how.[15]

21. To meet the PSGE's objectives, the government has taken several actions. In 2010, the government banned the export of raw logs. A special economic zone (SEZ) has been established at Nkok (near Libreville) and a free-trade zone is being established in Port-Gentil. Both offer very generous incentives to firms exporting more than 75 percent of their production, including a 10-year corporate income tax holiday, total tariff exemption on imported capital equipment and parts, total exemption from the value-added tax (VAT) for the first 25 years, unlimited and tax-free profit repatriation, and flexible labor laws for seven years for the employment of foreign workers.[16] Steps have also been taken to facilitate business, such as cutting in half to two weeks the average time needed to start a business in the SEZ of Nkok, and the granting of construction permits has been reduced from more than six months to ten days.

[13] Staff emphasized that considerable risks to its effective implementation remain, especially insufficient staff training and inadequate testing of new software, and recommended back-up options.

[14] Even if ongoing exploration in deep offshore bears fruit, production stage would be reached in the next decade and therefore oil production is expected to fall by 10 percent between 2013 and 2020.

[15] World Bank, 2014, Gabon—Export Diversification and Competitiveness Report, World Bank Policy Notes, Report No. ACS10571.

[16] World Bank (2014), *op. cit.*

22. To support the economic takeoff, the PSGE seeks to improve public infrastructure, enhance the business climate, and strengthen human capital. Objectives for the modernization of public infrastructure include developing a nationwide fiber optic infrastructure, doubling the country's energy capacity to 1,000 MW, and establishing a national network of 3,600 kilometers of paved roads[17] and 3,000 kilometers of waterways by 2025. The target for business climate reforms is to make Gabon one of the top 10 performers in Africa in the ranking of the World Bank's of *Doing Business* indicators by 2020 (Figure 9). Regarding human capital formation, the objective is to refocus the educational system toward technical training in the sectors targeted by the PSGE.

23. Despite considerable progress in attracting investment and improving infrastructure (Appendix I), the government needs to focus on "horizontal" policies to ensure a positive impact of the PSGE on the Gabonese population. Key achievements under the PSGE include improvements in transport and energy infrastructure, and joint-ventures with foreign companies in strategic sectors, but much remains to be done. Indeed, foreign investors typically cite insufficient and unreliable electricity supply, limited supply of qualified labor, and security of contracts as key deterrents to investing in Gabon. Given high labor costs, the authorities have aimed to compensate for them by granting foreign investors tax exemptions and subsidized electricity. This may have the perverse effect of attracting industries that are capital-intensive, thereby leading to a limited increase in employment and government revenue. Staff underscored that cross-country evidence shows that to attract labor-intensive industries that do not require direct government assistance, priority should be given to "horizontal" reforms.[18] These include notably reforms to improve the business climate, physical infrastructure, and the quality of technical education. Clear targets for social indicators should be defined and surveys should be conducted regularly to monitor progress**.** This is particularly important given that Gabon has fallen short of meeting most Millennium Development Goals (Table 7).

24. The real effective exchange rate is overvalued by 9 to 15 percent (Appendix II), following the large decline in oil prices. The recent collapse in oil prices significantly weakened the current account currently forecasted to fall from a surplus of 11 percent of GDP in 2014 to a deficit of about 4 percent in 2015. In the medium term, the current account deficit is projected to moderate somewhat on the back of higher processed wood and manganese exports. The deficit is expected to be financed with FDI inflows into strategic sectors[19] and with external borrowing by the government, consistently with debt sustainability. To reinforce external stability, structural policies should be implemented to curtail factor costs considered high by regional standards. Key priorities are: (1) adopting a more prudent medium-term fiscal stance to sustain the implementation of programs and projects under the PSGE; and (2) accelerating the pace of structural reforms to boost human capital development and improve the business climate.

[17] In 2009, Gabon had about 1,060 km of paved roads.

[18] IMF, 2014, "Sustaining Long-Run Growth and Macroeconomic Stability in Low-Income Countries—the Roles of Structural Transformation and Diversification".

[19] These include, wood processing, rubber, palm oil, manganese, and iron ore production.

Authorities' views

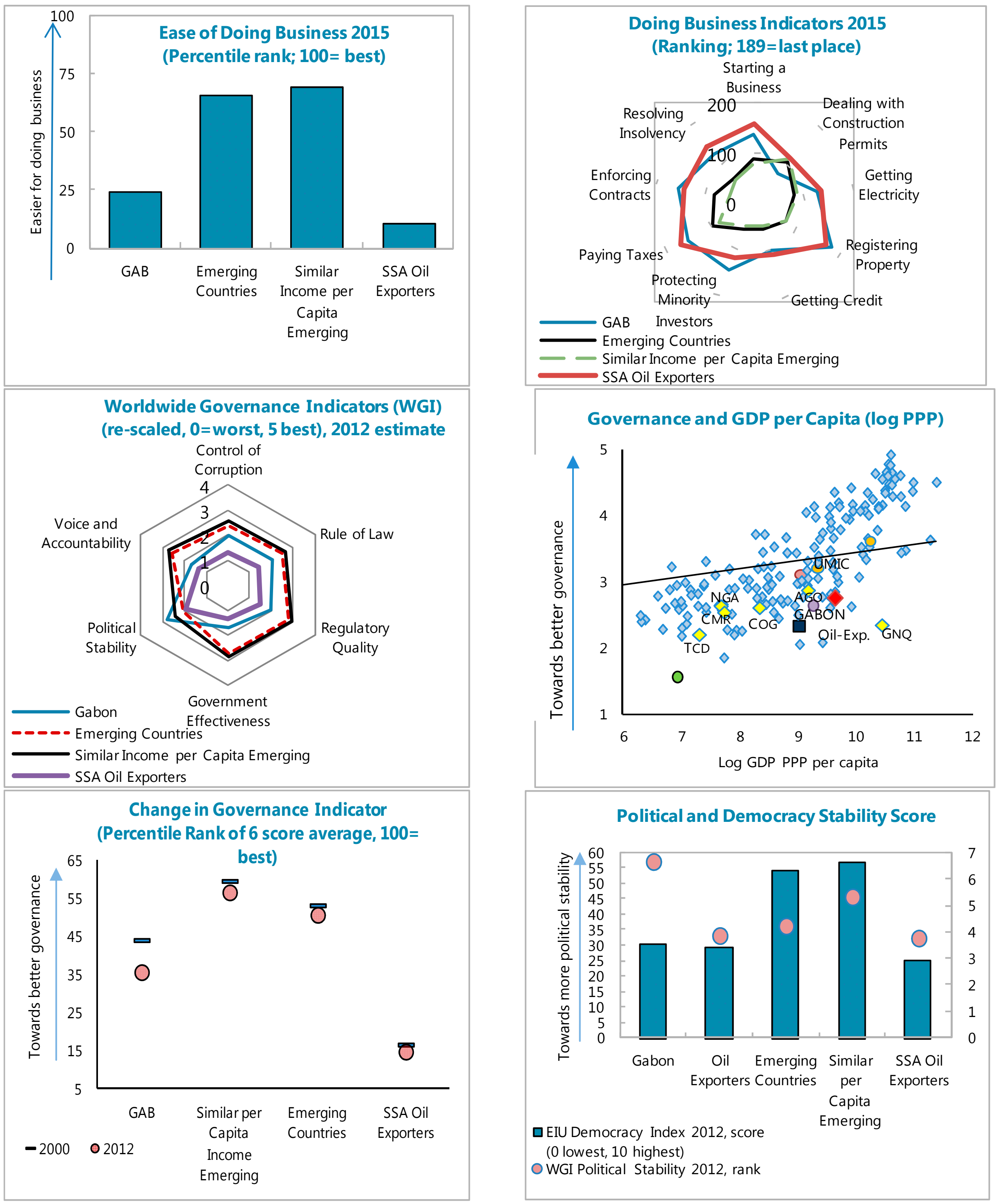
25. **The authorities concurred on the need to improve infrastructure, boost human capital development, and accelerate business climate reforms to diversify the Gabonese economy.** They further agreed that business climate reforms would be essential to the realization of public-private partnerships needed to support the PSGE, and noted the recent creation of a special agency to improve the business climate (*Agence Nationale de la Promotion des Investissements*) and efforts to improve technical education under the PSGE. They also noted ongoing discussions with local businesses to enhance their role in on-the-job training, and their intention to establish a specialized court for mediating industrial disputes in 2015. However, they argued that given high labor costs, the small size of the economy, and international competition, they had no choice but to offer incentives and affordable electricity for SEZs—which was possible in part due to newer lower-cost plants. Finally, the authorities deemed staff's growth projections to be rather conservative.

C. Enhancing Financial Access and Financial Stability

26. **The financial sector in Gabon comprises mainly banks, and is highly concentrated**. Three banks account for nearly 75 percent of total assets, and their activity is concentrated on large companies financing large-scale projects. Financial intermediation remains limited (lending to the private sector is 15 percent of GDP), and well below the average for its emerging-market peers. The nascent regional bond market, which has limited depth and short maturity profiles, can only meet a limited amount of domestic financing needs. There are nine microfinance institutions (MFIs) and eight insurance companies that operate in Gabon that have been increasingly instrumental in providing financial access to households and small- and medium-size enterprises (SMEs). Banking supervision is carried out by the regional authority COBAC. While recent progress has been made in reforming the regulatory framework, particularly in bank resolution, and licensing, the COBAC has also been facing serious capacity constraints, which hinder its efficiency. Additional efforts will be required to develop the regional bond market even to a level similar to that observed in the WAEMU.

27. **Financial access in Gabon is low due to several factors.** While the share of population with bank accounts has increased, it is still below the sub-Saharan Africa and emerging market averages. Total credit provided to households constituted 3 percent of GDP in 2013. Given low financial deepening, SMEs face even lower access to finance than in Gabon's peer groups. Banks cite the absence of credit bureaux and lack of company information and guarantees as underlying reasons for low credit supply and high lending rates (Figure 10). Low financial deepening and access as well as high banking sector liquidity also reduce the effectiveness of monetary policy transmission. Nonetheless, the exchange rate peg has adequately anchored inflation expectations and inflation is quite low.

Figure 9. Gabon: Business Environment and Governance



Sources: Doing Business, 2014; World Bank's Worldwide Governance Indicators (WGI), 2012, (average of control of corruption, government effectiveness, rule of law, regulatory quality, political stability and voice and accountability); Economist Intelligence Unit (EIU); and IMS staff calculations.
LIC=Low-income country; UMIC= Upper-middle income country; OIL=Oil producers; WGI= Worldwide Governance Indicators.
SSA oil exporters = Angola, Cameroon, Chad, Congo, Rep. of, Equatorial Guinea, Gabon, and Nigeria.

28. Although the overall banking sector in Gabon remains liquid, profitable, and generally well-capitalized, public banks are under financial stress.[20] Overall financial soundness indicators show that the banks were sufficiently capitalized with slightly higher return on assets and equity in 2013 compared to 2012. The liquidity ratio has come down as a result of increasing credit to the economy, but remains high. The regulatory capital has been decreasing, but is above the legal requirement of 8 percent, while non-performing loans are low at 3.5 percent of total assets. Similarly, the ratio of provisions to non-performing loans decreased in 2013, although it is still at a comfortable level. Although banks are not very exposed to the government directly, the weakening government balance sheet will undoubtedly have a negative impact on the banking system through increasing NPLs. Apart from the weaker growth outlook, the main transmission channel is likely to be through the weakening financial situation of firms that rely on government contracts.

29. Timely action is needed to address the weak financial situation of three distressed public banks. These banks' total assets amount to 9 percent of the banking system's total and 3 percent of GDP. The banks are facing structural problems leading to significant undercapitalization, and one of them has had serious governance issues. Faced with high overhead costs relative to their peers, these banks are unable to generate sufficient revenues from lending activities. Thus, they continue registering losses, but they have limited interbank relations with other banks. Staff commends the authorities' on their acknowledgement of the severity of the situation and for initiating the process of assessing the financial needs to define an action plan. Staff recommends developing resolution options in consultation with the regional bank supervisor, COBAC, and subsequently taking timely action—which will likely have fiscal costs—to safeguard financial stability.

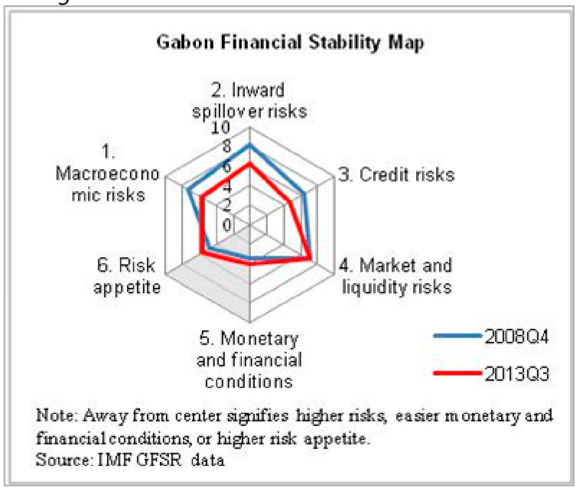
Authorities' views

30. The authorities broadly agreed with staff's assessment of the financial sector, and concurred with the need to improve financial access in the economy. They indicated that they intend to continue their efforts in setting-up a credit registry, which is expected to decrease barriers to finance. Regarding the three problem banks, the authorities informed staff that they have hired international advisors to assess the banks, and to define an action plan and a financing package. As for the MFIs, the authorities remain cautious of any macroprudential risks that may be induced by these institutions.

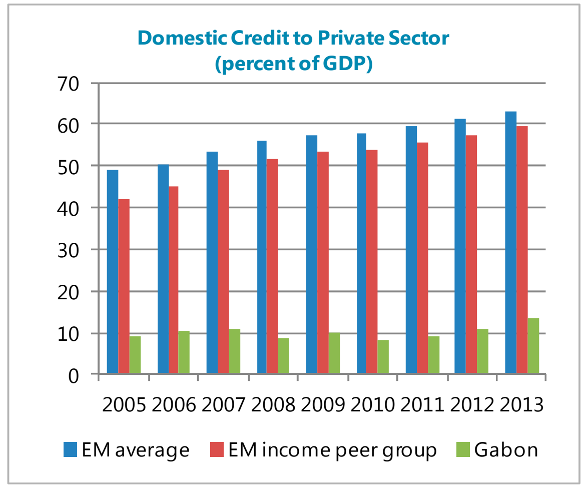
[20] More detailed assessment will be available after the completion of the ongoing regional FSAP exercise.

Figure 10. Financial Indicators

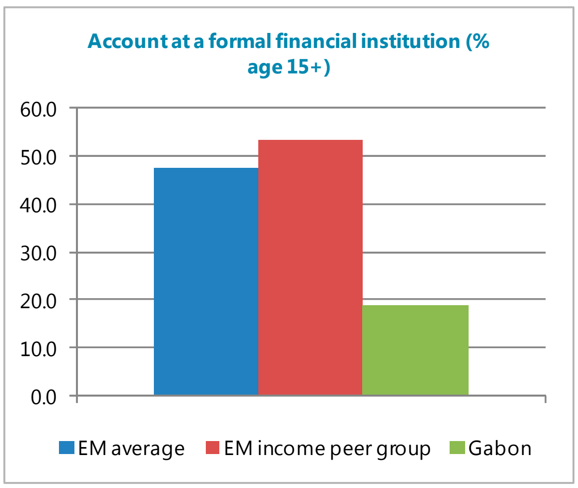
Risks to Gabon's financial stability appear manageable…



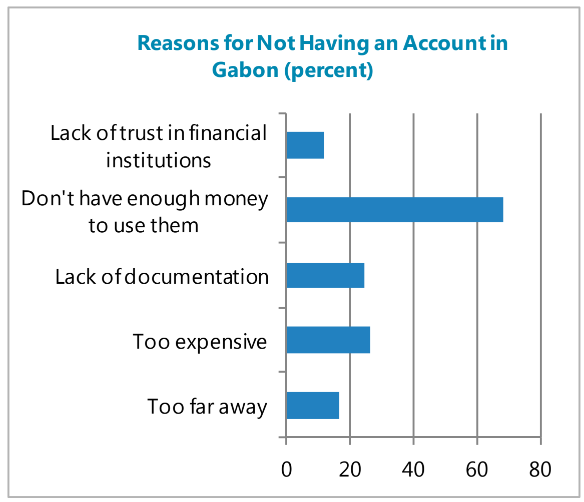
…but against the backdrop of low financial intermediation…



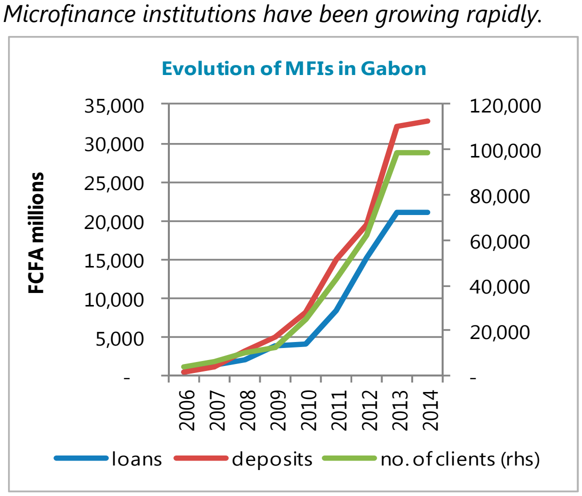
…and low financial access…



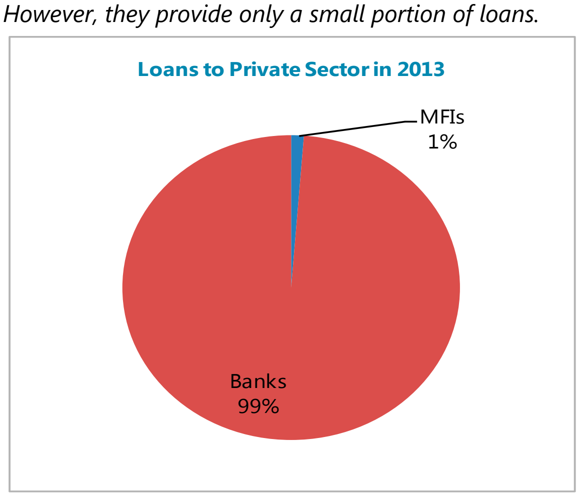
…which can be attributed to a number of reasons.



Microfinance institutions have been growing rapidly.



However, they provide only a small portion of loans.



Sources: IMF (Financial Access Survey), World Development Indicators, Findex and Staff calculations.

IMPROVING THE QUALITY OF DATA FOR DECISION-MAKING AND MONITORING PROGRESS UNDER PSGE, AND FUND JURISDICTIONAL ISSUES

31. The monitoring of the Gabonese economy and of the PSGE requires substantial improvements in the quality, timeliness, and transparency of statistics. Comprehensive, readily available, and high quality data are fundamental to the proper design and monitoring of a development strategy. Reliable statistics are particularly important if the country wants to attain market access levels similar to those that characterize emerging countries.

32. Unfortunately, data comprehensiveness, availability and quality in Gabon have serious shortcomings. In this regard, Gabon not only lags with respect to emerging economies, but even with respect to SSA countries of much lower income per capita. Balance of payments statistics are particularly weak, showing significant inconsistencies between oil exports and production data and not elaborating International Investment Position data, for example. Financial soundness indicators are very weak, and are produced with long lags.

33. Since the 2012 Article IV mission the provision of public financial statements to staff has been only sporadic. The authorities have provided fiscal statements in an untimely manner. In addition, the quality of these statements is quite weak, considering that they have not reflected the rapid accumulation of arrears in recent years, in part due to high extra-budgetary spending undertaken by various public agencies. The authorities urgently need to improve the quality and frequency of their fiscal statements to better monitor the fiscal sustainability of the PSGE.

34. The authorities need to substantially strengthen the measurement of basic social indicators. Household surveys are carried out with very low frequency. The latest survey of social indicators in Gabon took place in 2012 and focused only on demographics and health. Gabon's latest unemployment figures date back to 2010.

35. Fund jurisdictional issues. As has been noted in previous Article IV staff reports, Gabon maintains a 1.5% tax on wire transfers abroad that is not consistent with Gabon's obligations under Article VIII, Section 2(a) of the Articles of Agreement. The proceeds of this tax are used to fund Gabon's health insurance scheme. The authorities note that they have exempted a number of transactions from this tax (notably, all interbank transfers), but do not propose eliminating the tax.

STAFF APPRAISAL

36. The Gabonese economy is at a crossroads, and the recent sharp decline in commodity prices will make additional fiscal adjustment inevitable. While progress has been made to meet some of the objectives of the PSGE, there is still a long way to go. A recent acceleration of public investment has improved some infrastructure and put in place a nascent structural transformation. However, the country is now facing a major negative terms of trade shock and has limited fiscal buffers. The challenge ahead is to ensure that the recent growth pick-up is not derailed. In particular, there is need to implement additional fiscal adjustment beyond what the authorities currently envisage to secure the needed fiscal space and keep debt dynamics favorable. High growth, especially outside of the enclave sectors, is necessary to reduce high unemployment, especially among the youth. Given its prominent role in the CEMAC, Gabon should play a key role as a champion for reform.

37. Faced with the challenge of meeting infrastructure needs against the backdrop of weak oil revenues, the government rightly decided to implement fiscal adjustment in 2014. The very high level of investment spending undertaken from 2010 to 2013 was clearly unsustainable, as it led to substantial accumulation of arrears. The fiscal measures implemented in 2014 and the revised 2015 budget to be sent to parliament, which both better balance the need to address infrastructure bottlenecks while maintaining medium-term debt sustainability are steps in the right direction, but clearly more adjustment is needed in the medium run.

38. Despite a much lower level of oil revenues, the government needs to repay arrears and control the debt dynamics, while significantly improving the quality of investment. On the revenue side, there is need to compensate for declining oil revenues by widening the tax base, notably by reducing tax exemptions and improving tax administration. At the same time, improving the management of oil revenues over the medium term will be crucial. That said, the main focus should be on the expenditure side, containing the growth in current spending, especially in the wage bill and seizing the opportunity of low oil prices to phase out costly, inefficient, and inequitable fuel subsidies. After the recent reduction in investment the emphasis should therefore be on improving the quality of investment ("investing in investment") by addressing weaknesses in investment prioritization—focusing on those with highest returns, project preparation, execution and monitoring.

39. Staff supports efforts under way to improve the management and transparency of public finances. The planned implementation of program budgeting from 2015 is a step in the right direction. To ensure full success, there is need to enhance training in the use of new monitoring and accounting tools. There is also need for better coordination between the Ministries of the Economy and the Budget, especially in treasury management, to eliminate the frequent accumulation of payment arrears. More details on public finances should be provided to the general public, including on budget execution. Staff welcomes the authorities' renewed efforts to become fully compliant with EITI standards by end-2015 to ensure transparency and accountability in the management of natural resource wealth.

40. The government has appropriately aimed at diversifying the economy away from oil, and the oil price shock has underscored the need to foster diversification. Its strategy hinges on addressing a number of binding constraints to growth, especially weak infrastructure in electricity production and transportation, but the government also provides overly generous tax exemptions to many projects that substantially limit their potential contribution to public revenues. Without strong fiscal adjustment to the very weak commodity price outlook, there is considerable risk that lack of sufficient fiscal space could impede on the government's ability to implement a well-focused diversification strategy. Thus, there is need to focus more on "horizontal" policies aimed at improving the business climate and the educational system to provide better trained labor. These policies would help lower factor costs, thereby boosting Gabon's competitiveness and helping establish external stability.

41. There is need to improve financial depth and inclusion, and forcefully address financial weaknesses of three public banks. Staff recommends improving the operations of land and commercial registries, streamlining procedures for recording and enforcing guarantees, and strengthening creditor rights enforcement by enhancing governance of the relevant courts. Staff commends the authorities for initiating due diligence to assess the financial situation of the weak banks in order to define an action plan. Staff recommends developing resolution options and subsequently taking timely action in collaboration with the regional supervisor.

42. While the data provided to the Fund are broadly adequate for surveillance, there has been a notable deterioration in the timeliness of provision. Balance of payments and financial stability statistics are particularly weak, and fiscal statistics have not been provided on regular and timely basis. Current efforts to strengthen official statistics services need to be redoubled and, in particular, data on the International Investment Position needs to be produced and published.

43. Gabon maintains a tax on wire transfers, which is inconsistent with its obligations under Article VIII. Staff does not recommend approval of this restriction.

44. It is expected that the next Article IV consultation will be held on the standard 12-month cycle.

Table 1. Gabon: Selected Economic Indicators, 2012–20

	2012	2013	2014	2015	2016	2017	2018	2019	2020
	Est.	Est.	Prel. Est.			Proj.			
				(Annual percent change, unless otherwise indicated)					
Real sector									
GDP at constant prices	5.5	5.6	5.1	4.4	5.5	5.6	5.7	5.7	5.9
Oil	-4.4	-0.9	2.5	0.1	2.0	1.7	1.6	1.3	1.1
of which: primary oil	-4.2	-5.3	-0.9	-6.0	0.1	-0.4	-0.6	-1.3	-1.6
Non-oil	10.4	7.9	5.9	5.8	6.5	6.8	6.9	6.9	7.1
GDP deflator	-16.8	-2.7	-4.6	-9.4	2.6	1.9	0.5	0.0	0.6
Oil	-6.4	-5.1	-9.1	-30.7	10.8	4.7	1.8	-0.2	0.1
Consumer prices									
Yearly average	2.7	0.5	4.5	2.5	2.5	2.5	2.5	2.5	2.5
End of period	2.2	3.3	1.5	2.5	2.5	2.5	2.5	2.5	2.5
External sector									
Exports, f.o.b.	9.1	-6.0	-5.7	-41.3	13.3	9.7	6.3	3.7	1.1
Imports, f.o.b.	-4.2	9.0	4.5	-22.4	8.6	9.6	9.6	9.0	7.9
Terms of trade (deterioration= –)	-14.2	1.7	-5.9	-40.2	11.6	6.2	2.7	0.1	-0.8
Central government finance									
Total revenue	6.1	-0.6	-9.6	-24.3	17.0	9.0	7.4	5.5	6.5
Oil revenue	12.5	-12.2	-8.7	-52.2	37.4	7.5	3.1	-0.6	-0.6
Total expenditure	9.8	-1.2	-14.2	-3.6	6.1	4.7	5.4	6.3	8.3
				(Percent of GDP, unless otherwise indicated)					
Non-oil primary balance (in non-oil GDP)	-25.1	-19.6	-15.0	-11.6	-11.2	-9.8	-8.9	-8.2	-7.9
Overall balance (commitment basis)	2.6	1.8	2.9	-3.1	-0.9	0.1	0.6	0.4	0.0
Overall balance (cash basis)	2.4	0.2	-2.2	-3.8	-2.2	-1.1	0.6	0.4	0.0
Net domestic financing	-3.6	-10.1	2.7	0.6	-1.6	1.4	-2.6	-2.3	-1.5
Net external financing	-0.4	9.7	0.6	4.5	4.6	0.1	1.8	1.7	1.5
External public debt (including to the Fund)	17.2	24.0	24.3	30.5	31.5	29.3	28.9	28.7	28.1
Total public debt (Percent of GDP)	21.1	26.9	27.7	34.4	35.7	33.7	33.2	32.9	31.9
				(Percent Change, unless otherwise indicated)					
Money and credit									
Credit to the economy	24.1	23.6	-7.5	7.2	7.5	9.0	7.3	7.4	9.3
Broad money	15.7	8.8	1.4	4.2	4.0	5.5	4.8	4.8	8.3
Velocity ratio of NOGDP over broad money	2.4	2.4	2.5	2.6	2.6	2.7	2.8	2.8	2.8
				(Percent of GDP, unless otherwise indicated)					
Gross national savings	42.3	40.6	36.9	28.5	30.4	31.9	33.3	33.2	33.5
Gross fixed investment	21.0	25.8	25.8	30.9	31.2	31.8	33.6	35.2	36.3
of which: private	9.0	14.9	18.7	23.5	24.6	24.9	26.1	27.2	27.7
public	12.0	10.9	7.1	7.4	6.7	7.0	7.5	8.0	8.5
Current account balance	21.3	14.8	11.1	-4.0	-0.4	0.3	-0.1	-1.8	-2.9
				(CFA francs billion, unless otherwise indicated)					
Memorandum items									
Nominal GDP	8,274	8,500	8,518	8,062	8,722	9,388	9,975	10,546	11,235
Nominal non-oil GDP	4,879	5,307	5,541	5,996	6,389	6,903	7,404	7,948	8,605
National Currency per U.S. Dollar (Average)	510	494	494	..	..	..	..	..	..
Oil Prices (WEO, U.S. Dollar/BBL)	105	104	96	51	59	64	67	68	68

Sources: Gabonese authorities and IMF staff estimates and projections.

Table 2. Gabon: Central Government Accounts, 2012–20

	2012	2013	2014	2015	2016	2017	2018	2019	2020
	Est.	Est.	Prel. Est.			Proj.			
				(Billion of CFA francs)					
Total revenue and grants	2,638	2,622	2,370	1,794	2,098	2,288	2,457	2,592	2,760
Revenue	2,638	2,622	2,370	1,794	2,098	2,288	2,457	2,592	2,760
Oil revenue	1,531	1,344	1,226	586	805	865	893	887	881
Non-oil revenue	1,107	1,278	1,143	1,208	1,295	1,424	1,565	1,707	1,881
Tax revenue	1,048	1,055	995	1,091	1,166	1,284	1,409	1,532	1,686
Taxes on income, profits, and capital gains	310	343	360	408	425	470	519	558	611
Domestic taxes on goods and services	184	280	195	239	264	294	326	361	404
Value-added tax	126	213	98	165	182	205	229	255	288
Other	58	67	97	74	81	89	97	106	117
Taxes on international trade and transactions	407	401	398	403	430	466	504	546	595
Import tariffs	397	389	378	379	403	436	467	502	543
Export taxes	11	12	20	24	26	31	37	44	52
Other non-oil taxes	146	31	42	42	48	53	60	67	76
Non-tax revenue	59	222	148	117	127	139	155	173	193
Grants	0	0	0	0	0	0	0	0	0
Total expenditure and net lending	2,420	2,468	2,118	2,043	2,178	2,281	2,397	2,547	2,759
Current expenditure	1,427	1,419	1,477	1,439	1,517	1,547	1,577	1,628	1,727
Wages and salaries	515	553	681	733	741	755	767	781	834
Goods and services	328	239	279	254	270	281	296	316	340
Interest payments	87	152	144	141	169	177	175	185	198
Domestic	15	22	25	27	26	26	27	28	29
Foreign	72	130	119	114	143	151	149	157	168
Transfers and subsidies	498	476	374	312	337	334	339	346	355
of which: oil subsidies	229	220	125	36	19	9	7	8	8
Capital expenditure	995	925	601	599	580	653	745	843	956
Domestically financed	813	655	331	321	138	392	483	573	673
Foreign financed	183	271	270	278	442	261	262	270	284
Net lending	-78	-99	0	0	10	10	5	5	5
Road Fund (FER) and special funds	75	223	41	5	70	71	71	71	71
Overall balance (commitment basis)	218	154	251	-249	-78	9	61	47	4
Change in arrears	-21	-134	-435	-55	-111	-111	0	0	0
Domestic arrears payments	-21	-134	-435	-55	-111	-111	0	0	0
External arrears (interest only)	0	0	0	0	0	0	0	0	0
Overall balance (cash basis)	196	20	-184	-304	-189	-102	61	47	4
Total financing	-196	-20	184	304	189	102	-61	-47	-4
Foreign borrowing (net)	-18	514	32	269	292	4	132	138	128
Drawings	183	271	270	278	306	261	262	270	284
Amortization	-201	-481	-238	-283	-150	-257	-130	-132	-155
Exceptional financing	0	725	0	273	136	0	0	0	0
Domestic borrowing (net)	-178	-534	152	35	-103	98	-192	-186	-132
Banking system	-76	-319	227	-5	-143	58	-232	-226	-132
Monetary authorities	-92	-331	250	-35	-155	46	-240	-243	-149
Deposit money banks	16	11	-23	30	12	12	8	17	17
Non-bank sector	-101	-215	-75	40	40	40	40	40	0
Financing gap	0	0	0	0	0	0	0	0	0
Memorandum item:									
Gross government deposits in BEAC	382.9	740.0	657.5	692.1	846.9	800.7	1041.1	1283.7	1432.5
Non-oil primary balance excluding capital transfers (NOPD)	-1,227	-1,039	-832	-694	-714	-680	-657	-654	-680
as percent of non-oil GDP	-25.1	-19.6	-15.0	-11.6	-11.2	-9.8	-8.9	-8.2	-7.9
Non-oil GDP at market prices	4,879	5,307	5,541	5,996	6,389	6,903	7,404	7,948	8,605

Sources: Gabonese authorities and IMF staff estimates and projections.

Table 3. Gabon: Central Government Accounts, 2012–20

	2012	2013	2014	2015	2016	2017	2018	2019	2020
	Est.	Est.	Prel. Est.			Proj.			
	(Percent of non-oil GDP)								
Total revenue and grants	54.1	49.4	42.8	29.9	32.8	33.1	33.2	32.6	32.1
Revenue	54.1	49.4	42.8	29.9	32.8	33.1	33.2	32.6	32.1
Oil revenue	31.4	25.3	22.1	9.8	12.6	12.5	12.1	11.2	10.2
Non-oil revenue	22.7	24.1	20.6	20.1	20.3	20.6	21.1	21.5	21.9
Tax revenue	21.5	19.9	18.0	18.2	18.3	18.6	19.0	19.3	19.6
Taxes on income, profits, and capital gains	6.4	6.5	6.5	6.8	6.7	6.8	7.0	7.0	7.1
Domestic taxes on goods and services	3.8	5.3	3.5	4.0	4.1	4.3	4.4	4.5	4.7
Taxes on international trade and transactions	8.3	7.6	7.2	6.7	6.7	6.8	6.8	6.9	6.9
Other non-oil taxes	3.0	0.6	0.8	0.7	0.7	0.8	0.8	0.8	0.9
Non-tax revenue	1.2	4.2	2.7	1.9	2.0	2.0	2.1	2.2	2.2
Total expenditure and net lending	49.6	46.5	38.2	34.1	34.1	33.0	32.4	32.0	32.1
Current expenditure	29.2	26.7	26.6	24.0	23.7	22.4	21.3	20.5	20.1
Wages and salaries	10.5	10.4	12.3	12.2	11.6	10.9	10.4	9.8	9.7
Goods and services	6.7	4.5	5.0	4.2	4.2	4.1	4.0	4.0	4.0
Interest payments	1.8	2.9	2.6	2.3	2.6	2.6	2.4	2.3	2.3
Transfers and subsidies	10.2	9.0	6.7	5.2	5.3	4.8	4.6	4.4	4.1
of which: oil subsidies	4.7	4.1	2.3	0.6	0.3	0.1	0.1	0.1	0.1
Capital expenditure	20.4	17.4	10.8	10.0	9.1	9.5	10.1	10.6	11.1
Domestically financed	16.7	12.3	6.0	5.3	2.2	5.7	6.5	7.2	7.8
Foreign financed	3.7	5.1	4.9	4.6	6.9	3.8	3.5	3.4	3.3
Net lending	-1.6	-1.9	0.0	0.0	0.2	0.1	0.1	0.1	0.1
Road Fund (FER) and special funds	1.5	4.2	0.7	0.1	1.1	1.0	1.0	0.9	0.8
Overall balance (commitment basis)	4.5	2.9	4.5	-4.2	-1.2	0.1	0.8	0.6	0.0
Change in arrears	-0.4	-2.5	-7.8	-0.9	-1.7	-1.6	0.0	0.0	0.0
Overall balance (cash basis)	4.0	0.4	-3.3	-5.1	-3.0	-1.5	0.8	0.6	0.0
Total financing	-4.0	-0.4	3.3	5.1	3.0	1.5	-0.8	-0.6	0.0
Foreign borrowing (net)	-0.4	9.7	0.6	4.5	4.6	0.1	1.8	1.7	1.5
Drawings	3.7	5.1	4.9	4.6	4.8	3.8	3.5	3.4	3.3
Amortization	-4.1	-9.1	-4.3	-4.7	-2.4	-3.7	-1.8	-1.7	-1.8
Exceptional financing	0.0	13.7	0.0	4.6	2.1	0.0	0.0	0.0	0.0
Domestic borrowing (net)	-3.6	-10.1	2.7	0.6	-1.6	1.4	-2.6	-2.3	-1.5
Banking system	-1.6	-6.0	4.1	-0.1	-2.2	0.8	-3.1	-2.8	-1.5
Non-bank sector	-2.1	-4.0	-1.4	0.7	0.6	0.6	0.5	0.5	0.0
	(Billion of CFA francs, unless otherwise indicated)								
Total revenue and grants	2,638	2,622	2,370	1,794	2,098	2,288	2,457	2,592	2,760
Total expenditure and net lending	2,420	2,468	2,118	2,043	2,178	2,281	2,397	2,547	2,759
Overall balance	218	154	251	-249	-78	9	61	47	4
Memorandum items:									
Gross government deposits in BEAC (percent of GDP)	4.6	8.7	8.2	7.4	8.5	7.6	9.3	10.8	11.4
Overall balance (percent of GDP)	2.6	1.8	2.9	-3.1	-0.9	0.1	0.6	0.4	0.0
Non-oil primary balance excluding capital transfers	-1,227	-1,039	-832	-694	-714	-680	-657	-654	-680
As percent of non-oil GDP	-25.1	-19.6	-15.0	-11.6	-11.2	-9.8	-8.9	-8.2	-7.9
Oil revenues (percent of oil GDP)	45.1	42.1	41.2	28.4	34.5	34.8	34.7	34.1	33.5
Basic balance (percent of GDP)	4.8	5.0	6.1	0.4	4.2	2.9	3.2	3.0	2.6
Public debt (percent of GDP)	21.1	26.9	27.7	34.4	35.7	33.7	33.2	32.9	31.9
Domestic debt (percent of GDP)	3.8	2.9	3.3	3.9	4.1	4.4	4.3	4.3	3.8
External debt (percent of GDP)	17.2	24.0	24.3	30.5	31.5	29.3	28.9	28.7	28.1
Non-oil GDP at market prices	4,879	5,307	5,541	5,996	6,389	6,903	7,404	7,948	8,605

Sources: Gabonese authorities and IMF staff estimates and projections.

Table 4. Gabon: Monetary Survey, 2012–20

	2012	2013	2014	2015	2016	2017	2018	2019	2020
	Est.	Est.	Prel. Est.	Proj.					
	(Billion of CFA francs, unless otherwise indicated)								
Net foreign assets	1106	1424	1328	1464	1571	1611	1695	1975	2096
Net domestic assets	924	732	741	874	861	956	994	845	956
Domestic credit	1131	999	995	1071	1033	1214	1110	1032	1091
Claims on central government (net)	82	-250	-175	-195	-338	-292	-516	-725	-840
Claims on public agencies (net)	-32	-124	-136	-136	-136	-136	-136	-136	-136
Claims on nongovernment	1081	1373	1306	1402	1506	1641	1762	1892	2066
Other items (net)	-207	-268	-255	-197	-171	-258	-115	-187	-134
Broad money (M2)	2034	2212	2243	2338	2432	2567	2689	2820	3053
Currency	295	348	333	350	424	447	469	491	532
Deposits	1739	1809	1736	1988	2008	2120	2221	2328	2521
	(Annual change as percent of Broad Money)								
Net foreign assets	3.4	15.6	-4.3	6.1	4.6	1.7	3.3	10.4	4.3
Net domestic assets	10.4	-8.7	0.4	5.7	-0.5	3.7	1.4	-5.3	3.7
Domestic credit	9.9	-5.9	-0.2	3.2	-1.6	7.1	-3.9	-2.8	1.9
Claims on general government (net)	-1.0	-15.0	3.3	-0.8	-5.9	1.8	-8.3	-7.4	-3.8
Claims on nongovernment	11.9	13.2	-2.9	4.1	4.3	5.3	4.5	4.6	5.7
Other items (net)	-0.5	-4.1	-0.5	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:	(Annual percent change)								
Broad money (M2)	15.7	8.8	1.4	4.2	4.0	5.5	4.8	4.8	8.3
Reserve money (RM)	40.7	-32.6	-2.7	-8.3	-5.1	2.5	1.9	2.0	5.4
Credit to the economy	24.1	23.6	-7.5	7.2	7.5	9.0	7.3	7.4	9.3
Credit to the private sector (in percent of non-oil GDP)	21.3	24.2	21.5	21.3	21.5	21.7	21.7	21.7	21.9
Broad money (in percent of overall GDP)	24.6	26.0	26.3	29.0	27.9	27.3	27.0	26.7	27.2
Government non-cash deposits in BEAC (billion CFA francs)	265.7	205.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Gabonese authorities and IMF staff estimates and projections.

Table 5. Gabon: Balance of Payments, 2012–20

	2012	2013	2014	2015	2016	2017	2018	2019	2020
	Est.	Est.	Prel. Est.	Proj.					
	(Billions of CFAF)								
Current account	1,760	1,261	947	-324	-35	32	-12	-189	-327
Goods (net)	4,087	3,483	3,106	1,642	1,924	2,088	2,135	2,086	1,963
Export of goods (fob)	5,730	5,216	4,914	3,197	3,605	3,912	4,109	4,217	4,263
Hydrocarbons	4,749	4,198	3,800	2,020	2,348	2,526	2,605	2,588	2,572
Timber	456	436	453	489	504	584	648	715	715
Manganese	431	447	511	529	585	624	666	712	767
Other	94	135	150	158	168	179	190	202	210
Import of goods (fob)	-1,643	-1,732	-1,809	-1,555	-1,681	-1,824	-1,974	-2,131	-2,300
Petroleum sector	-405	-358	-324	-172	-200	-215	-222	-221	-216
Other	-1,238	-1,374	-1,484	-1,382	-1,481	-1,608	-1,752	-1,910	-2,084
Services (net)	-990	-944	-972	-914	-877	-929	-981	-1,014	-989
Exports	257	292	292	272	290	313	338	363	418
Imports	-1,247	-1,235	-1,264	-1,186	-1,167	-1,242	-1,319	-1,377	-1,407
Other private services	-360	-451	-487	-458	-463	-472	-472	-441	-489
Income (net)	-1,185	-1,121	-1,031	-903	-926	-968	-1,004	-1,098	-1,146
Current transfers (net)	-152	-157	-156	-148	-156	-159	-161	-163	-156
Capital account	0	0	0	0	0	0	0	0	0
Financial account	-964	-269	-1,063	311	151	-60	266	447	309
Direct investment (net)	425	478	481	585	634	657	666	702	727
Portfolio investments (net)	0	0	0	0	0	0	0	0	0
Other investment assets and liabilities (net)	-1,389	-747	-1,544	-274	-483	-717	-399	-255	-141
Medium- and long-term transactions	-117	432	-34	216	238	-58	62	57	37
Short term transactions	-1,272	-1,180	-1,510	-490	-720	-658	-462	-312	-179
Errors and Omissions	-716	-741	0	0	0	0	0	0	0
Overall balance	80	252	-116	-12	116	-28	254	258	190
Financing	-80	-252	116	12	-116	28	-254	-258	-190
Change in net foreign assets	-80	-252	116	12	-116	28	-254	-258	-190
Use of IMF credit and loans (net)	0	0	0	0	0	0	0	0	0
Memorandum items:									
	(Percent of GDP)								
Current account	21.3	14.8	11.1	-4.0	-0.4	0.3	-0.1	-1.8	-2.9
Oil	39.6	33.0	28.9	12.2	14.2	14.2	13.4	11.8	10.8
Non-oil	-18.3	-18.1	-17.8	-16.2	-14.6	-13.8	-13.5	-13.6	-13.7
Exports of goods and services	72.4	64.8	61.1	43.0	44.7	45.0	44.6	43.4	41.7
Imports of goods and services	-34.9	-34.9	-36.1	-34.0	-32.7	-32.7	-33.0	-33.3	-33.0
Capital and financial accounts	-5.9	-1.6	-6.2	2.1	0.9	-0.3	1.4	4.2	5.2
Foreign Direct Investment	5.1	5.6	5.6	7.3	7.3	7.0	6.7	6.7	6.5
Overall balance	0.5	1.5	-0.7	-0.1	0.7	-0.2	1.4	2.4	1.7
	(Billions of CFAF, unless otherwise indicated)								
Gross official reserves imputed to Gabon	1064.0	1315.8	1200.1	1187.6	1303.7	1275.6	1529.5	1787.1	1977.2

Sources: Gabonese authorities and IMF staff estimates and projections.

Table 6. Gabon: Financial Soundness Indicators for the Banking Sector, 2009–13

	2008	2009	2010	2011	2012	2013
Capital						
Regulatory Capital to risk-weighted assets	19.4	24.0	22.6	21.1	17.1	11.6
Capital to total assets	10.7	16.2	11.3	10.9	10.0	9.2
Asset quality						
Bank nonperforming loans to total assets	8.5	7.2	9.9	4.4	3.4	3.5
Bank provisions to non performing loans	61.4	71.0	56.8	93.2	84.2	63.0
Earnings and profitability						
Return on assets	1.8	2.8	0.5	0.6	1.4	1.6
Return on equity	20.8	17.2	5.8	5.1	13.9	14.7
Liquidity						
Liquid Assets to short-term liabilities	243.0	197.0	158.0	137.9	143.2	125.2

Sources: BEAC, COBAC, and staff estimates using definitions from IMF's "Compilation Guide on Financial Soundness Indicators."

Table 7. Gabon: Millennium Development Goals, 1990–2012

	1990	1995	2000	2005	2009	2012
Goal 1: Eradicate extreme poverty and hunger						
Employment to population ratio, 15+, total (%)	*60*	60	60	61	62	..
Employment to population ratio, ages 15-24, total (%)	*40*	41	40	39	38	..
Malnutrition prevalence, weight for age (% of children under 5)	..	..	*9*	..	..	6
Goal 2: Achieve universal primary education						
Primary completion rate, total (% of relevant age group)	*70*	68	*72*	*69*	..	88
Total enrollment, primary (% net)	..	*92*	*82*	..	..	96
Goal 3: Promote gender equality and empower women						
Proportion of seats held by women in national parliaments (%)	13	..	8	9	17	..
Ratio of female to male primary enrollment (%)	*100*	99	100	*99*	..	100
Ratio of female to male secondary enrollment (%)	*86*	82	86	..	..	110
Ratio of female to male tertiary enrollment (%)	*42*	..	*54*	..	..	..
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	..	*29.3*	..	..	..	..
Goal 4: Reduce child mortality						
Immunization, measles (% of children ages 12-23 months)	76	57	55	55	55	74
Mortality rate, infant (per 1,000 live births)	68	65	63	59	55	43
Mortality rate, under-5 (per 1,000)	93	89	88	82	75	65
Goal 5: Improve maternal health						
Adolescent fertility rate (births per 1,000 women ages 15-19)	..	*130*	116	97	86	114
Births attended by skilled health staff (% of total)	..	..	86	..	..	89
Contraceptive prevalence (% of women ages 15-49)	..	..	33	..	..	31
Maternal mortality ratio (modeled estimate, per 100,000 live births)	260	250	260	260	*260*	*316*
Pregnant women receiving prenatal care (%)	..	..	94	..	..	95
Unmet need for contraception (% of married women ages 15-49)	..	..	28	..	..	27
Goal 6: Combat HIV/AIDS, malaria, and other diseases						
Children with fever receiving antimalarial drugs (% of children under age 5 with fever)	..	..	..	..	..	26
Condom use, population ages 15-24, female (% of females ages 15-24)	..	..	..	..	..	60
Condom use, population ages 15-24, male (% of males ages 15-24)	..	..	..	..	..	78
Incidence of tuberculosis (per 100,000 people)	153	155	248	326	502	428
Prevalence of HIV, female (% ages 15-24)	..	..	..	..	3.5	2.4
Prevalence of HIV, male (% ages 15-24)	..	..	..	..	1.4	0.4
Prevalence of HIV, total (% of population ages 15-49)	0.9	3.1	5.2	5.4	5.2	1.5
Tuberculosis case detection rate (%, all forms)	65	66	*73*	56	41	71
Goal 7: Ensure environmental sustainability						
CO2 emissions (kg per PPP $ of GDP)	0	0	0	0	*0*	..
CO2 emissions (metric tons per capita)	5	4	1	1	*2*	..
Forest area (% of land area)	85.4	..	85.4	85.4	*85.4*	*85.4*
Improved sanitation facilities (% of population with access)	..	36	36	33	*33*	*38*
Improved water source (% of population with access)	..	84	85	86	*87*	*89*
Marine protected areas (% of territorial waters)	0	0	1	7	7	2
Net ODA received per capita (current US$)	141	132	9	44	52	
Goal 8: Develop a global partnership for development						
Debt service (PPG and IMF only, % of exports, excluding workers' remittances)	5	15	9	3	..	
Internet users (per 100 people)	0.0	*0.0*	1.2	4.9	6.7	8.6
Mobile cellular subscriptions (per 100 people)	0	0	10	54	93	180
Telephone lines (per 100 people)	2	3	3	3	2	1
Fertility rate, total (births per woman)	5	5	4	4	3	4

Sources: Authorities and World Development Indicators.

Annex 1. Gabon: Risk Assessment Matrix[1]

	Source of Risk	Likelihood of Realization in the Next Three Years	Expected Impact on Economy if Risk is Realized
Global Risks	**Side-effects from global financial conditions**	**Staff assessment: High** • **A surge in financial volatility:** as investors reassess underlying risk and move to safe-haven assets given slow and uneven growth as well as asymmetric monetary exit. **Staff assessment: Medium** • Persistent dollar strength: improving U.S. economic prospects versus the rest of the world leads to a further dollar surge, boosting non-U.S. trade but creating balance sheet strains for dollar debtors	**Staff Assessment: High** • Gabon would find it difficult to issue new sovereign bonds at competitive interest rates. **Staff Assessment: High** • Dollar strength would help mitigate the revenue impact of oil price falls in local currency, but FX debt service would also increase. However, the former impact would dominate.
	Protracted period of slower growth in advanced and emerging economies.	**Staff Assessment: High** • **Advanced economies**: Lower-than-anticipated potential growth and persistently low inflation due to a failure to fully address legacies of the financial crisis, leading to secular stagnation. • **Emerging markets:** Maturing of the cycle, misallocation of investment, and incomplete structural reforms leading to prolonged slower growth.	**Staff Assessment: High** • Lower oil exports will sharply reduce government revenue and lead to increased public debt levels. Financing for infrastructure would be curtailed. • Demand for non-oil exports would be reduced, and would negatively impact efforts of diversification. • FDI in non-oil sectors would likely be lower, with a negative impact on potential non-oil growth.
Domestic Risks	**Loosening of fiscal policy and weak investment execution capacity.**	**Staff Assessment: Medium to High** • Capital spending has historically been volatile and pro-cyclical, in the context of weak administrative and absorptive capacity. • Since 2009, the government has failed to increase fiscal buffers despite high hydrocarbon revenues.	**Staff Assessment: Medium to High** • A loose and inefficient fiscal policy would raise inflation and undermine competitiveness, thereby inhibiting non-oil growth and negatively impacting the poor. • Further scaling-up of capital spending could strain the absorptive and implementation capacity, with impact on project selection and scope for corruption, and resulting in additional waste of resources.
	Failure of full materialization of the diversification strategy due to insufficient fiscal space and weak implementation of structural reforms (e.g., PFM, business climate initiatives). **Widening inequalities in income and job opportunities.** **CEMAC institutional reform stalled.**	**Staff Assessment: Medium** • Investment and growth would remain hampered by a poor business environment and over-reliance on a public sector-led growth model. • Non-hydrocarbon sectors would remain rudimentary and offer few job opportunities. • Regional integration and cooperation would remain limited.	**Staff Assessment: High** • Economic diversification and job creation would be much lower than hoped for, making the objective of emerging market status very difficult to reach. • Continued social inequalities could fuel social tensions. There is an urgent need to improve human development outcomes and enhance job opportunities. • Duplication of development projects across the sub-region would waste resources and new growth opportunities would be lost.

[1]The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability of 30 percent or more). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

Appendix I. PSGE Track Record

Industrial and Agricultural Development

1. **Several projects have been realized to enhance industrial and agricultural development, mainly as joint-ventures with international investors.** Key achievements include the establishment of a 1,126 hectare SEZ specialized in wood processing in Nkok (near Libreville), the development of two palm oil plantations with over 100,000 hectares in total, and the development of a rubber plantation with over 28,000 hectares, all as joint ventures with the Singapore-based multinational corporation OLAM. Project costs are estimated at about US$400 million for the SEZ of Nkok, most of which has been spent by OLAM, and US$1 billion for the palm oil and rubber plantations. Production in the Nkok SEZ started in 2012 and over 70 foreign investors have signed up. In the palm oil and rubber plantations, production is expected to start in 2015 and 2019, respectively. So far, about 3,800 people have been employed by the plantations. In addition, OLAM is involved in a US$2 billion joint venture project with the government for the development of a fertilizer plant in the free trade zone of Port-Gentil.

Adding Value-Added to Manganese and Iron Exports

2. **Manganese and iron processing plants are being constructed to increase value-added.** In addition to the manganese processing plant under construction in the manganese deposit of Ndjolé (expected production amounts to 700,000 tons of manganese per year), a metallurgical complex is being built in the Moanda-Franceville mining area. This complex is expected to process 20,000 metric tons of manganese and 40,000 metric tons of silico-manganese on average per year. Another industrial complex estimated to cost US$4 billion will be built in Belinga to produce about 44 million tons of iron ore and 18 million tons of transformed iron on average per year.

Ongoing Infrastructure Projects

3. **Infrastructure has been boosted to catalyze economic growth**. About 435 km of new paved roads have been constructed and work is ongoing to pave 980 km more. An agreement was signed with Singapore Port Authority to modernize and extend the ports of Owendo and Port-Gentil. Five docks in river tributaries have been built throughout the country and two river ports were built in the cities of Lambaréné and Port-Gentil. Other projects pertaining to energy infrastructure development include ongoing construction of the 160 MW capacity-Grand Poubara and the 84 MW-capacity Empresse Eugenie hydroelectric dams, and the upgrading project for the Alenakiri gas-fired power plant (in Libreville) which is expected to double capacity from 35MW to 70 MW.

Human Capital Development and Business Climate Reforms

4. **The government seeks to enhance human capital development through technical education and training.** A Mines and Metallurgy school is expected to open in the metallurgical complex of Moanda in September 2015. Measures implemented to improve the business climate include the adoption of a special agency to promote investments (*Agence Nationale de la Promotion des Investissements*), the computerization of procedures required to open a business, a reduction in

construction permits processing delays which fell from over 6 months to 10 days, and the adoption of a one-stop shop for large companies at the national company for water and electricity (SEEG) to reduce connection delays.

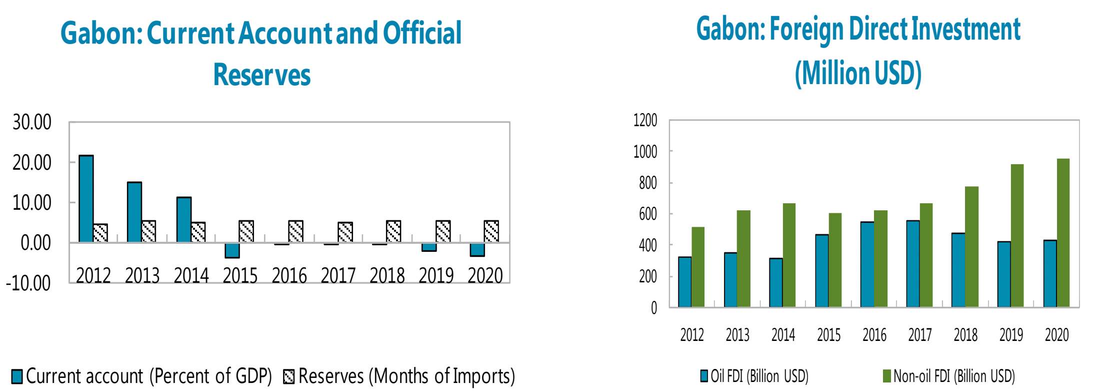
Appendix II. External Sector Assessment

*Falling all prices and oil production have contributed to deteriorating the external sector***.** *Results from the methodology of Araujo et al. (2013) suggest that the effective real exchange rate is overvalued by about 10 percent. The Bems and Carvalho methodology, which abstracts from returns on investment, points to some overvaluation between 9 and 15 percent. While the current account balance is expected to continue falling in the medium term, sustained capital inflows from FDI and external borrowing by the government would help maintain a sound level of international reserves.*

1. Gabon's current account is projected to fall from a surplus of 11 percent of GDP in 2014 to a deficit of 4 percent in 2015 and 3 percent in 2020. The deterioration of the current account is caused by falling oil exports reflecting the joint impact of the oil price collapse and maturing oil wells. Oil prices are forecasted to drop from US$96 per barrel in 2014 to US$51 per barrel in 2015 and US$69 per barrel in 2020. In spite of potential new oil discoveries from ongoing exploration projects, production is expected to fall by 9 percent between 2014 and 2020, owing to aging wells. The share of non-oil exports to total exports would increase in the medium term from about 23 percent in 2014 to 40 percent in 2020 as manganese and processed wood exports pick up in the context of the PSGE while oil exports continue falling.

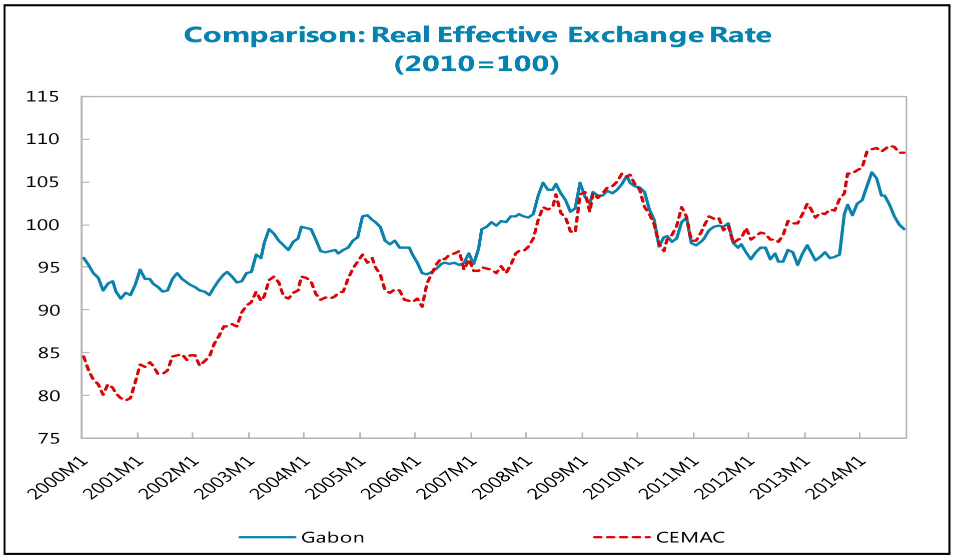
2. Thanks to increased FDI, international reserves will gradually increase from 5 to 6 months of imports in 2014–20. Projected falls in the current account would be largely compensated by growing foreign direct investment and government's eurobond issuances. Future government's bond issuance would help finance public investment projects supporting the PSGE. Expected FDI would mainly target deep offshore oil exploration projects, wood processing, rubber, palm oil production, and manganese and iron ore production.

Gabon: External Position (2012–20)



Exchange Rate Assessment

3. The real effective exchange rate appears overvalued by 9 to 15 percent. Given an estimate of the trade balance elasticity with respect to the real effective exchange rate of -0.6[1] , results from the methodology of Araujo et al. suggest real exchange rate overvaluation of about 10 percent. The Bems and Carvalho methodology, which abstracts from returns on investment, indicates an overvaluation between 9 and 15 percent. Although Gabon's real effective exchange rate has remained relatively stable compared to other oil exporters over the past decade, both methodologies point to a strong need to reinforce external competitiveness by accelerating the pace of human capital development and business climate reforms.



4. The methodology of Araujo et al. (2013) suggests that the effective real exchange rate is overvalued. [2] This methodology solves for a current account norm resulting from a welfare maximization problem in which productive investment needs may be financed by contracting external debt that will be repaid from income flows from oil resources windfalls. It takes into account absorptive capacity constraints associated with investment, reflecting the fact that ambitious public and private investment programs in developing countries are often plagued by poor planning and poor coordination which associated to weak oversight contribute to large cost overruns.[3] Results

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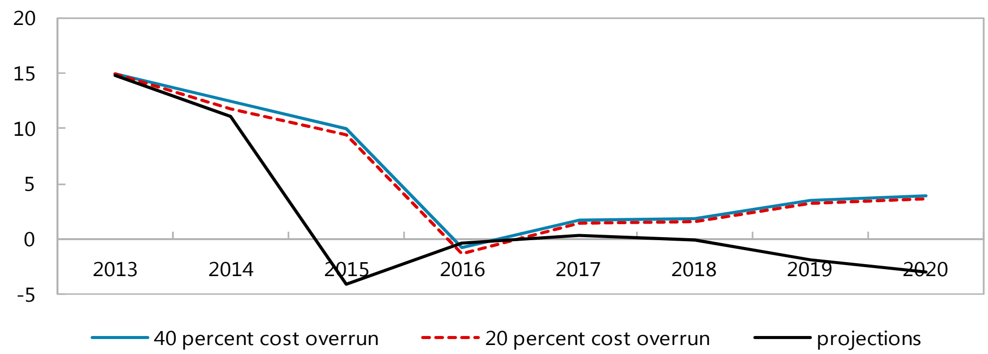
[1]Trade elasticity is estimated assuming exports volume and imports volume elasticities equal to zero as in Hakura and Billmeier, 2008, "Trade Elasticities in the Middle East and Central Asia: What is the Role of Oil?", IMF Working Paper 08/216.

[2] Araujo et al., 2013, "Current Account Norms in Natural Resource Rich and Capital Scarce Economies", IMF Working Paper 13/80, IMF. The exchange rate assessment based on Araujo et al. (2013) was prepared by Bin Li and Juliana Araujo.

[3]Comparing investment flows to the physical measure variations of the public capital stock in Columbia and Mexico over the period 1981-95, Arestoff and Hurlin (2006) estimates that one peso of public investments created around 0.40 pesos of public capital. Pritchett (1996) reports that in a typical developing country in earlier decades, less than 50 cents of capital were created for each public dollar invested.

from this methodology suggest an overvaluation of 9.9 and 9.7 percent under cost overrun assumptions of 40 and 20 percent. Higher cost overruns lead to relatively higher investment needs to cover for the larger inefficiencies, which in turn imply a higher current account balance norm.

Current Account: Projections and Norms from Araujo et al. (2013), Percent of GDP



Gabon - External Stability Assessments, 2020				
	Bems and Carvalho		Araujo et al. [2] Cost Overrun of 40 percent	Araujo et al. [2] Cost Overrun of 20 percent
	Constant real annuity	Constant real per capita annuity		
MT trade balance norm (Percent of GDP)	3.0	6.5	3.3	3.2
Underlying trade balance (Percent of GDP)	-2.4	-2.4	-2.4	-2.4
Trade balance elasticity [1]	0.6	0.6	0.6	0.6
Overvaluation (Percent)	9.4	15.4	9.9	9.7

Source: IMF staff estimates.

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

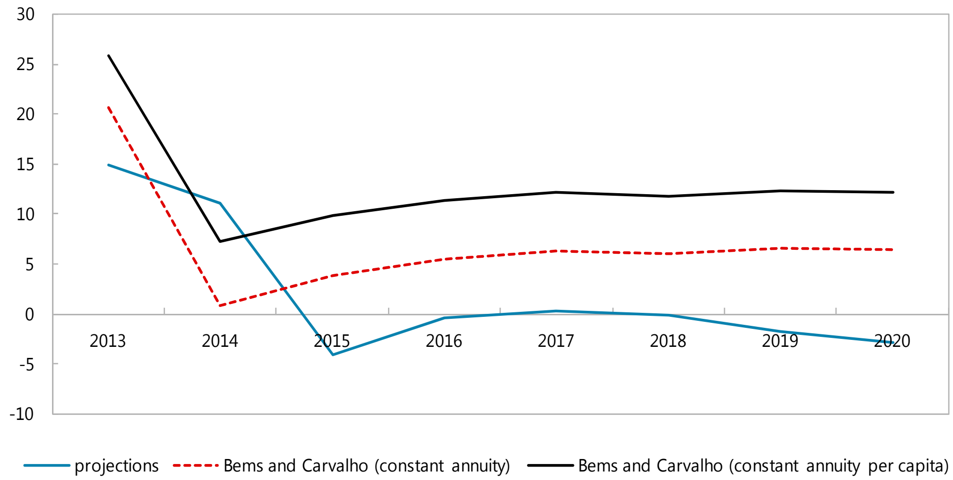
1/ Based on Bems and Carvalho (2009), "Exchange Rate Assessments: Methodologies for Oil Exporting Countries", WP/09/281, IMF.
[2] Prepared by Bin Li and Juliana Araujo, based on Araujo et al. (2013).

5. **The methodology of Bems and Carvalho (2009) abstracts from existing investment needs and suggests an overvaluation of the real effective exchange rate between 9 and 15 percent.**[4] The Bems and Carvalho methodology derives a desired path for the current account based on specified inter-temporal allocation rules of oil income flows. It does not account for future returns of public investment on future productivity growth and hence produces current account norms that are significantly above Gabon's medium term current account path. In the current

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

context of public investment scaling-up, the methodology of Araujo et al. appears more appropriate for assessing potential real effective exchange rate misalignments[5].

Current Account Projections and Norms from Bems and Carvalho (2009), Percent of GDP

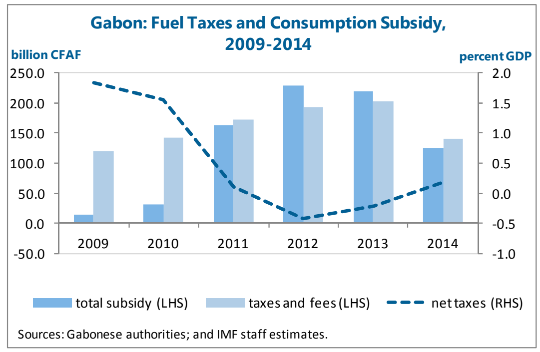


[5]More standard CGER-like and "EBA-lite" methods provide a similar assessment.

Appendix III. Reform of Fuel Subsidies: Progress and Remaining Agenda[1]

1. The government has made progress in reducing its fuel subsidies. The main reform has been the partial elimination of the subsidy to industrial diesel (excluding food processing, fishing, cement production, and forestry). Another measure was the addition of imports duties to the calculation of the notional market price on which the calculation of the subsidy is made.

2. Fuel subsidies declined in 2014 as a result of reforms and a decline in the oil price. Preliminary estimates indicate that the gross subsidy came down from CFAF 220 billion in 2013 to CFAF 125 billion in 2014 (see Figure), and because of the decline in oil prices, the subsidy is expected to come down to CFAF 24 billion in 2015 despite an increase in volume.



3. Further reforms are still needed given the tight fiscal situation. Fuel subsidies took up 1.5 percent of GDP from government resources in 2014. In the context of lower oil prices the government could seize the opportunity and significantly phase out the fuel subsidy scheme. Reforms in the short term could include: removal of the SOGARA refinery markup and renegotiation of cost/margin in the pump price structure, and introduction of competitive tenders for procurement of refined products. Eventual elimination of fuel subsidies should be the ultimate objective, starting with elimination of the rest of industrial diesel subsidies, followed by a reduction in gasoline subsidies.

4. Lessons from experience in other countries point to the need for a comprehensive strategy for the eventual elimination of fuel subsidies. The introduction of fuel pricing reforms involves large trade-offs between different social and macroeconomic objectives. Recent work has highlighted key elements of a successful reform strategy based on international experience:[2]

- Analyze the costs and benefits of the subsidy system to the various stakeholders, and the macroeconomic impact of possible reforms.
- Consult widely with all stakeholders.
- Communicate clearly: initiate a wide program to broaden the policy debate on fuel pricing by mobilizing thought leaders and using far-reaching media.

[1] Jean Van Houtte (AFR) was the main contributor to this appendix.

[2] See IMF, 2013, “Energy Subsidy Reform: Lessons and Implications”.

- Decide early on important parameters of the reform initiative, e.g., pace of price adjustment. The reform commitment must be seen as irreversible.
- Roll out tangible accompanying mitigating measures to provide offsets to stakeholders who are adversely affected by the reforms, with particular emphasis on vulnerable households. Ideally, targeting should be informed by a poverty mapping based on household surveys. In Gabon there is an urgent need to conduct one, as the previous one is out of date. Possible mitigating measures could include cash transfers and vouchers for public transportation.

INTERNATIONAL MONETARY FUND

GABON

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

February 2, 2015

Approved By
Anne-Marie Gulde-Wolf and Daneshwar Ghura

Prepared by the staff of the International Monetary Fund

While Gabon's public and external debt remain at moderate levels, they have considerably increased since the previous Debt Sustainability Analysis (DSA), published two years ago. In the context of a tight fiscal stance and with oil prices projected at about half of their level in recent years, Gabon is implementing a major fiscal adjustment. Under a baseline scenario that assumes that the needed adjustment takes place, debt is projected to increase rapidly only temporarily and briefly exceed the government's public debt ceiling (of 35 percent of GDP). Lower than projected GDP growth, fiscal revenues, or current account balances could lead to a dramatic increase in debt indicators, far above the government's debt ceiling. Therefore there is a need to gradually rebuild fiscal buffers.

PUBLIC DEBT SUSTAINABILITY ANALYSIS

Public debt level and structure. Gabon's public debt has rapidly increased in recent years as the government sought additional funds to finance the PSGE. From approximately 16.7 percent of GDP in 2008, total public debt reached 27.3 percent of GDP in 2013. Gabon's government debt is mostly external (external debt accounts for 90 percent of total public debt) and medium-to-long term. It is worth noting that while the CEMAC regional group sets a public debt ceiling at 70 percent of GDP (deemed too high in recent CEMAC regional surveillance staff reports), Gabon sets a more conservative ceiling of 35 percent of GDP.

Baseline scenario. The baseline scenario reflects projections made in the macroeconomic framework described in Tables 1 to 6. This scenario assumes that the government, significantly eliminates tax exemptions, rapidly removes most of the existing oil subsidies, further adjusts public investment spending, and curbs other current spending items from 2017. International oil and other commodity prices, as well as exchange rates reflect *World Economic Outlook* projections through 2020. The public DSA shows that the macroeconomic framework presented in this staff report would result in debt levels that briefly exceed the government's debt ceiling in 2016 and gradually decrease from 2017.

Shocks. A historical scenario, in which financial needs are much lower than in the baseline, translates into a reduction in public debt levels over the projection period. On the other hand, assuming that the primary fiscal balance remains in deficit (equivalent to 1.3 percent of GDP), which could result from insufficient fiscal adjustment, leads to a substantial accumulation of public debt, surpassing 60 percent of GDP. Assuming real GDP growth is 1 percentage point lower in the projection period (a supply shock) leads to a substantial increase in public debt up to almost 60 percent of GDP. This is similar to the result of a combined shock of a reduction in government revenues by 2 percentage points of GDP (which could result if oil prices decline by 20 percent, for example) and a reduction in GDP growth by 1 percentage point.

Table 1. Gabon: Public Sector Debt Sustainability Analysis (DSA) - Baseline Scenario

(in percent of GDP unless otherwise indicated)

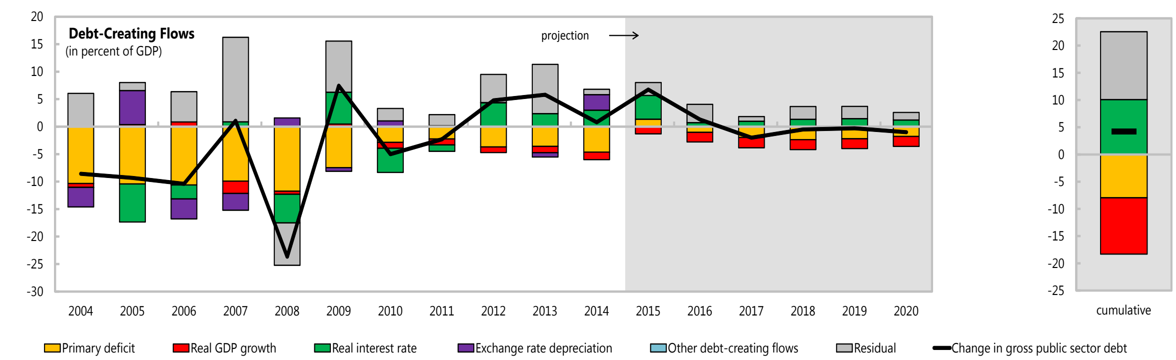
Debt, Economic and Market Indicators 1/

	Actual			Projections					
	2004-2012 2/	2013	2014	2015	2016	2017	2018	2019	2020
Nominal gross public debt	31.3	26.9	27.7	34.4	35.7	33.7	33.2	32.9	31.9
Public gross financing needs	-1.2	3.9	-0.2	6.3	3.1	3.4	1.8	2.5	3.6
Real GDP growth (in percent)	2.5	5.6	5.1	4.4	5.5	5.6	5.7	5.7	5.9
Inflation (GDP deflator, in percent)	7.2	-2.7	-4.6	-9.4	2.6	1.9	0.5	0.0	0.6
Nominal GDP growth (in percent)	10.0	2.7	0.2	-5.4	8.2	7.6	6.3	5.7	6.5
Effective interest rate (in percent) 4/	5.7	8.7	6.3	5.0	5.0	5.0	4.7	4.7	4.6

As of January 20, 2015		
Sovereign Spreads		
Bond Spread (bp) 3/		687
5Y CDS (bp)		n.a.
Ratings	Foreign	Local
Moody's	Ba3	Ba3
S&Ps	BB-	BB-
Fitch	BB-	BB-

Contribution to Changes in Public Debt

	Actual			Projections							
	2004-2012	2013	2014	2015	2016	2017	2018	2019	2020	cumulative	debt-stabilizing primary balance 9/
Change in gross public sector debt	-5.1	5.8	0.8	6.7	1.3	-2.0	-0.5	-0.3	-1.0	4.2	
Identified debt-creating flows	-9.5	-3.2	-0.2	4.4	-2.0	-2.9	-2.8	-2.5	-2.4	-8.2	
Primary deficit	-7.7	-3.6	-4.6	1.3	-1.0	-2.0	-2.4	-2.2	-1.8	-8.0	-0.6
Primary (noninterest) revenue and grants	28.0	30.8	27.8	22.3	24.1	24.4	24.6	24.6	24.6	144.5	
Primary (noninterest) expenditure	20.3	27.2	23.2	23.6	23.0	22.4	22.3	22.4	22.8	136.5	
Automatic debt dynamics 5/	-1.8	0.4	4.5	3.0	-1.0	-0.9	-0.5	-0.3	-0.6	-0.3	
Interest rate/growth differential 6/	-1.6	1.2	1.6	3.0	-1.0	-0.9	-0.5	-0.3	-0.6	-0.3	
Of which: real interest rate	-1.0	2.4	3.0	4.3	0.7	1.0	1.3	1.5	1.2	10.1	
Of which: real GDP growth	-0.5	-1.1	-1.4	-1.3	-1.7	-1.9	-1.8	-1.8	-1.8	-10.3	
Exchange rate depreciation 7/	-0.2	-0.8	2.8	...	...	...	...	...	...	...	
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Please specify (1) (e.g., privatization receipts) (+ reduces financing needs) (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Please specify (2) (e.g., other debt flows) (+ increases financing needs)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Residual, including asset changes 8/	4.4	9.0	1.0	2.4	3.3	0.9	2.3	2.2	1.4	12.5	



Source: IMF staff.

1/ Public sector is defined as general government.

2/ Based on available data.

3/ Long-term bond spread over German bonds (bp).

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

5/ Derived as [r - π(1+g) - g + ae(1+r)]/(1+g+π+gπ) times previous period debt ratio, with r = effective nominal interest rate; π = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar).

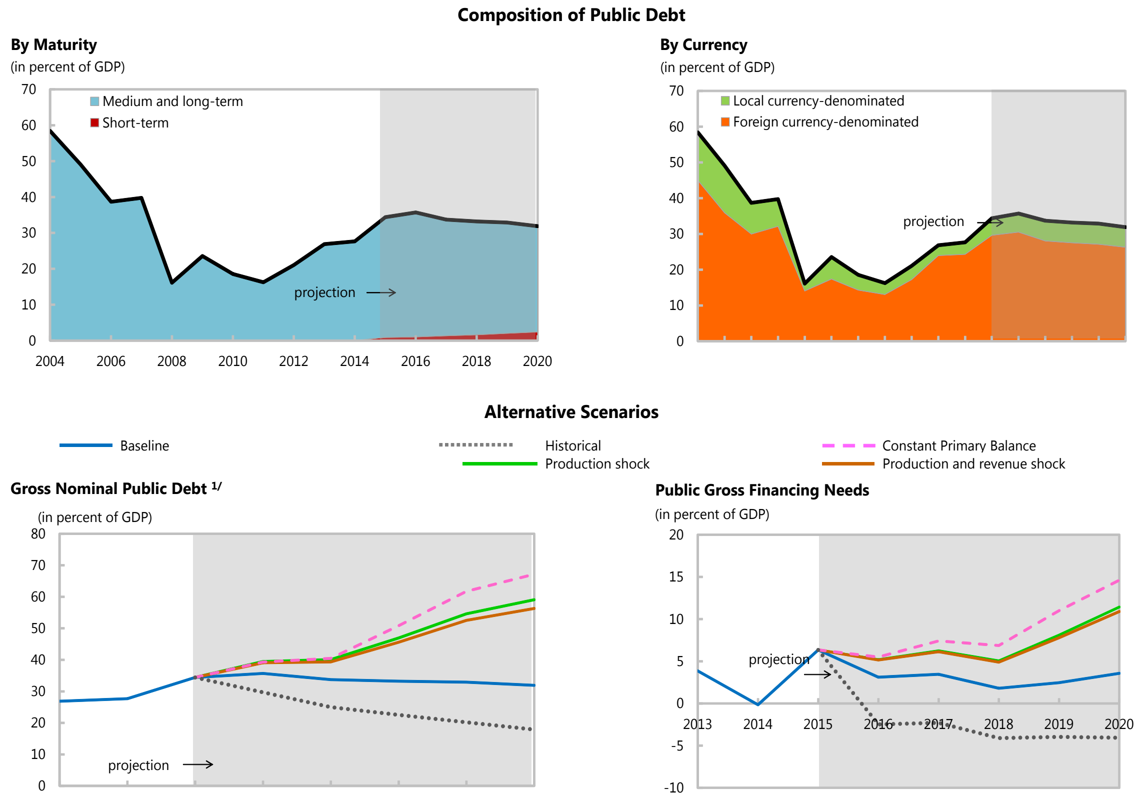
6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - π (1+g) and the real growth contribution as -g.

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

8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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

Figure 1. Gabon: Public DSA - Composition of Public Debt and Alternative Scenarios



Underlying Assumptions
(in percent)

Baseline Scenario	2015	2016	2017	2018	2019	2020
Real GDP growth	4.4	5.5	5.6	5.7	5.7	5.9
Inflation	-9.4	2.6	1.9	0.5	0.0	0.6
Primary Balance	-1.3	1.0	2.0	2.4	2.2	1.8
Effective interest rate	5.0	5.0	5.0	4.7	4.7	4.6
Constant Primary Balance Scenario						
Real GDP growth	4.4	5.5	5.6	5.7	5.7	5.9
Inflation	-9.4	2.6	1.9	0.5	0.0	0.6
Primary Balance	-1.3	-1.3	-1.3	-1.3	-1.3	-1.3
Effective interest rate	5.0	5.0	4.8	4.5	4.1	3.9
Production shock						
Real GDP growth	4.4	3.5	3.6	3.7	3.7	3.9
Inflation	-9.4	2.6	1.9	0.5	0.0	0.6
Primary Balance	-1.3	-1.0	0.0	0.4	0.2	-0.2
Effective interest rate	5.0	5.0	4.9	4.7	4.4	4.2

Historical Scenario	2015	2016	2017	2018	2019	2020
Real GDP growth	4.4	3.2	3.2	3.2	3.2	3.2
Inflation	-9.4	2.6	1.9	0.5	0.0	0.6
Primary Balance	-1.3	6.7	6.7	6.7	6.7	6.7
Effective interest rate	5.0	5.0	5.2	5.2	5.4	5.7
Production and revenue shock						
Real GDP growth	4.4	4.5	4.6	4.7	4.7	4.9
Inflation	-9.4	2.6	1.9	0.5	0.0	0.6
Primary Balance	-1.3	1.0	2.0	2.4	2.2	1.8
Effective interest rate	5.0	5.0	4.9	4.7	4.4	4.2

Source: IMF staff.

Figure 2. Gabon: Public DSA Risk Assessment

Heat Map

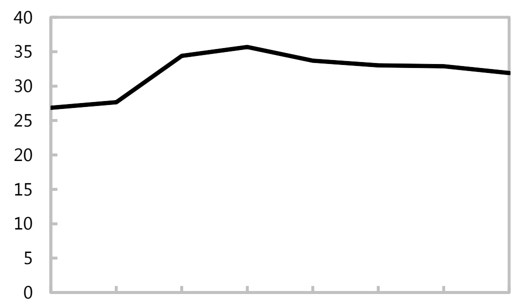
Debt level 1/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability shock
Gross financing needs 2/	Real GDP Growth Shock	Primary Balance Shock	Real Interest Rate Shock	Exchange Rate Shock	Contingent Liability Shock
Debt profile 3/	Market Perception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

Evolution of Predictive Densities of Gross Nominal Public Debt

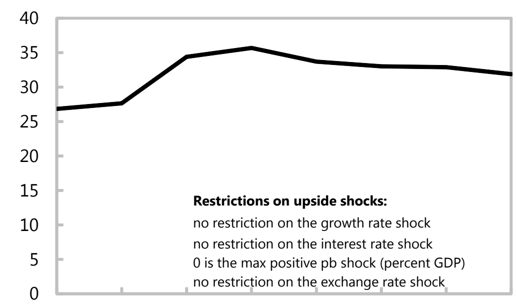
(in percent of GDP)

Baseline Percentiles: 10th-25th 25th-75th 75th-90th

Symmetric Distribution

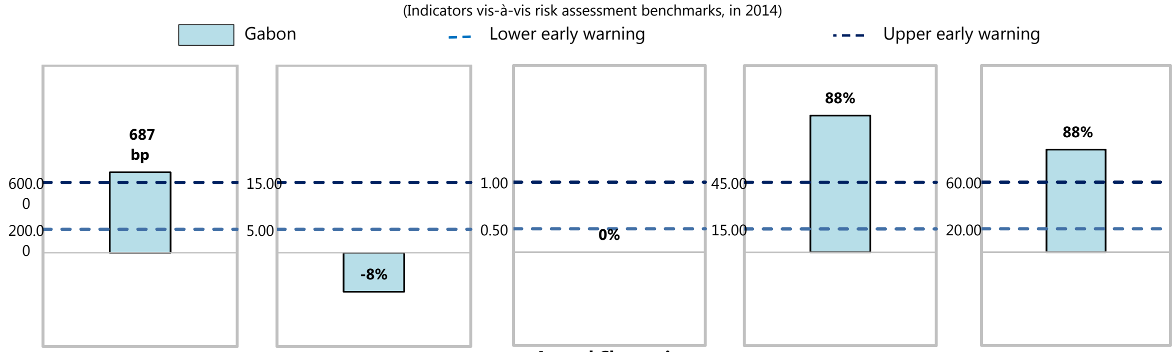


Restricted (Asymmetric) Distribution



Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2014)



Bond spread
(in basis points) 4/

External Financing Requirement
(in percent of GDP) 5/

Annual Change in Short-Term Public Debt
(in percent of total)

Public Debt Held by Non-Residents
(in percent of total)

Public Debt in Foreign Currency
(in percent of total)

Source: IMF staff.

EXTERNAL DEBT SUSTAINABILITY ANALYSIS

External debt level and structure. After a considerable restructuring and consequent reduction in the late 2000s, Gabon's external debt went up from US$2.1 billion in 2009 to about US$4.3 billion in 2013 (equivalent to 24.8 percent of 2013 GDP). Such an increase is partly the result of the issuance of a US$1.5 billion eurobond in 2013. By end-2013, debt to multilateral institutions accounted for 13 percent of total external debt, bilateral debt for 23 percent, debt to commercial institutions for 24 percent and the remaining 40 percent was placed in financial markets.

Baseline scenario. The baseline scenario is the same as in the public debt sustainability analysis, reflecting projections made in the macroeconomic framework described in Tables 1 to 6. With respect to external debt, the macroeconomic framework assumes that the authorities are able to issue eurobonds for US$500 million in 2015 and for US$250 million in 2016, half of what they had previously intended, due to tighter market conditions. The framework assumes that the international bond for US$1 billion that was issued in 2007 is not rolled over, as is the case in projections provided by the authorities. Under this scenario, the external debt sustainability framework projects an increase in external debt-to-GDP ratio to a peak of 31.7 percent in 2016, after which external debt gradually declines to 28.1 percent in 2020.

Shocks. Alternative scenarios include a historical scenario in which main variables are assumed to be the same as in the past ten years, and others that incorporate a 0.25 standard deviation applied to real interest rate, growth rate, and the current account balance. While the historical scenario, in which financial needs are much lower than in the baseline, lead to a drastic reduction in external debt, other shocks to the baseline lead to a substantial debt escalation. Most notably, shocks to the non-interest rate current account and the real exchange rate lead to an increase in external debt by 2020 up to 41 and 42 percent of GDP, respectively.

Table 2. Gabon: External Debt Sustainability Framework, 2009-2020

(In percent of GDP, unless otherwise indicated)

	Actual					10-Year	10-Year	Projections						
	2010	2011	2012	2013	2014	Historical Average	Standard Deviation	2015	2016	2017	2018	2019	2020	Debt-stabilizing non-interest current account 6/
Baseline: External debt	14.4	12.4	17.6	24.8	22.5			**30.5**	**31.7**	**29.5**	**29.1**	**28.7**	**28.1**	**-6.7**
Change in external debt	-3.6	-2.0	5.2	7.1	-2.2			8.0	1.1	-2.2	-0.4	-0.4	-0.6	
Identified external debt-creating flows (4+8+9)	-15.5	-18.6	-23.5	-21.5	-16.8			-4.4	-8.4	-9.0	-8.1	-6.4	-5.1	
Current account deficit, excluding interest payments	-8.7	-13.8	-22.1	-16.4	-12.5			2.6	-1.2	-1.9	-1.4	0.3	1.4	
Deficit in balance of goods and services	-20.2	-25.2	-37.4	-29.9	-25.0			-9.0	-12.0	-12.3	-11.6	-10.2	-8.7	
Exports	49.1	53.5	72.4	64.8	61.1			43.0	44.7	45.0	44.6	43.4	41.7	
Imports	28.9	28.2	34.9	34.9	36.1			34.0	32.7	32.7	33.0	33.3	33.0	
Net non-debt creating capital inflows (negative)	-3.2	-3.4	-5.1	-5.6	-5.6			-7.3	-7.3	-7.0	-6.7	-6.7	-6.5	
Automatic debt dynamics 1/	-3.6	-1.4	3.8	0.5	1.3			0.2	0.1	0.0	-0.1	-0.1	-0.1	
Contribution from nominal interest rate	0.9	0.7	0.9	1.5	1.4			1.4	1.6	1.6	1.5	1.5	1.5	
Contribution from real GDP growth	-0.8	0.0	-0.8	-0.9	-1.3			-1.2	-1.5	-1.6	-1.6	-1.6	-1.6	
Contribution from price and exchange rate changes 2/	-3.6	-2.2	3.7	-0.1	1.2			...	...	...	...	...	...	
Residual, incl. change in gross foreign assets (2-3) 3/	11.9	16.6	28.7	28.6	14.6			12.4	9.5	6.8	7.7	6.0	4.5	
External debt-to-exports ratio (in percent)	29.4	23.2	24.3	38.2	36.9			71.0	70.9	65.6	65.2	66.0	67.3	
Gross external financing need (in billions of US dollars) 4/	-0.8	-2.3	-3.1	-1.6	-1.4			1.1	0.3	0.4	0.3	0.6	0.9	
in percent of GDP	-5.3	-11.6	-18.8	-9.2	-8.3			7.5	2.1	2.4	1.4	3.0	4.3	
Scenario with key variables at their historical averages 5/								**30.5**	**19.7**	**6.4**	**-6.1**	**-20.2**	**-35.5**	**-3.0**
Key Macroeconomic Assumptions Underlying Baseline														
Real GDP growth (in percent)	6.3	0.0	5.5	5.6	5.1	3.2	3.7	4.4	5.5	5.6	5.7	5.7	5.9	
GDP deflator in US dollars (change in percent)	25.3	17.8	-23.1	0.5	-4.6	6.3	19.0	-18.2	3.1	3.0	1.7	1.0	0.6	
Nominal external interest rate (in percent)	6.9	6.1	5.7	9.2	5.7	6.1	1.3	5.3	5.8	5.5	5.4	5.5	5.6	
Growth of exports (US dollar terms, in percent)	23.5	37.1	9.8	-5.0	-5.4	11.4	22.8	-39.9	12.9	9.6	6.5	4.0	2.2	
Growth of imports (US dollar terms, in percent)	8.9	23.2	0.3	6.1	3.6	10.8	9.1	-19.5	4.4	8.8	8.7	7.6	5.7	
Current account balance, excluding interest payments	8.7	13.8	22.1	16.4	12.5	15.9	5.5	-2.6	1.2	1.9	1.4	-0.3	-1.4	
Net non-debt creating capital inflows	3.2	3.4	5.1	5.6	5.6	4.2	1.9	7.3	7.3	7.0	6.7	6.7	6.5	

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

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

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

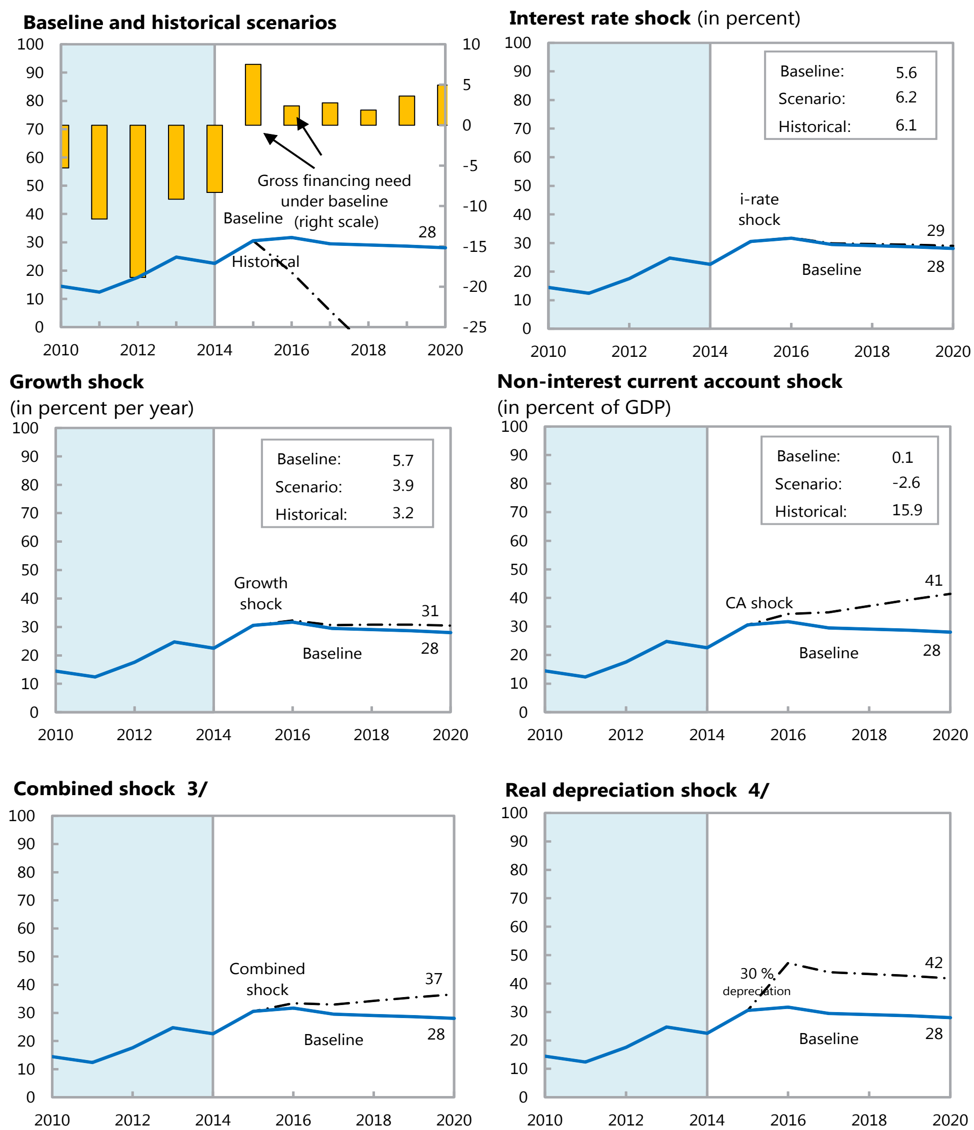
4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

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

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

Figure 3. Gabon: External Debt Sustainability: Bound Tests 1/ 2/

(External debt in percent of GDP)



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

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

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

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

GABON

February 2, 2015

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

The African Department
(in consultation with other departments)

CONTENTS

- **Relations with the Fund.** Gabon has been a member of the International Monetary Fund since 1963. Central African Economic and Monetary Community (CEMAC) member countries accepted the obligations of Article VIII in June/July 1996. The three-year SBA for about US $118 million expired in May 2010, with only the first three reviews completed. Recurrent fiscal slippages made it difficult to sustain the Fund-supported program. The last Article IV Consultation was concluded on February 13, 2013.

- **Relations with the World Bank.** A US$ 58 million IBRD Loan for the Central African Regional and National Backbone project (CAB4) supporting the development of high speed telecommunication infrastructure was signed in May 2012. The World Bank is preparing two US$ 100 million loans, one to finance basic urban services and another to strengthen youth training.

- **Exchange rate regime**: Gabon is a member of CEMAC. The common currency, the CFA franc, is pegged at the fixed rate of 655.957 CFA franc per euro. Gabon's tax on wire transfers constitutes a restriction on the making of payments and transfers for current international transactions subject to approval under Article VIII, Section 2 (a) of the Articles of Agreement.

- **Statistical Issues.** Gabon has subscribed to the General Data Dissemination System (GDDS). While data are broadly adequate for surveillance purposes, staff analysis was affected by the timeliness and coverage of fiscal data, the poor quality of balance of payments and financial stability data, and the limited information on labor cost and productivity.

RELATIONS WITH THE FUND

(As of October 31, 2014)

Membership Status: Joined September 10, 1963 — Article VIII

General Resources Account:	**SDR Million**	**%Quota**
Quota	154.30	100.00
Fund holdings of currency (Exchange Rate)	153.47	99.46
Reserve Tranche Position	0.85	0.55

SDR Department:	**SDR Million**	**%Allocation**
Net cumulative allocation	146.72	100.00
Holdings	132.80	90.51

Outstanding Purchases and Loans: None

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

Projected Payments to Fund (Expectation Basis)
(SDR Million, based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2014	2015	2016	2017	2018
Principal					
Charges/Interest	0.00	0.01	0.01	0.01	0.01
Total	0.00	0.01	0.01	0.01	0.01

Implementation of HIPC Initiative: Not Applicable

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

Implementation of Post-Catastrophe Debt Relief (PCDR): Not Applicable

Safeguards Assessments:

The Bank of the Central African States (BEAC) is the regional central bank of CEMAC. As with other regional central banks, the BEAC is subject to a safeguards assessment every four years. The 2013 assessment, completed in November, spanned a period of change at the BEAC and occurred against the backdrop of reforms initiated to address governance challenges and control failures that emerged in 2009. These events led to close engagement with the IMF through monitoring of safeguards "rolling measures" in the context of new program requests and reviews for CEMAC countries. The BEAC had also initiated an action plan to reform its governance, strengthen key safeguards, and build capacity. The 2013 assessment found that the BEAC has made some progress in reinforcing its safeguards framework, but risks remained elevated. Further actions are needed to fully restore sound governance and control, including through amendments to the BEAC charter and commitment to achieve implementation of the reform and modernization plan. Governance at the BEAC continues to be undermined by a legal framework that does not adequately protect institutional autonomy, and problematic partial adherence of several member states to the reserves pooling obligation that is fundamental to the operation of the currency union. The assessment also concluded that annual IMF staff visits to monitor priority recommendations and progress on the BEAC's reform plan would continue as part of the safeguards "rolling measures" approach. Consistent with this approach, a safeguards staff visit to the BEAC was conducted in April 2014. Staff concluded that the BEAC has made good progress in implementing recommendations from the 2013 assessment and is advancing its reform plan to strengthen controls. That said, the BEAC continues to face challenges on institutional autonomy and broader governance reforms remain paramount in the medium-term. Staff will maintain close engagement with the BEAC to assess sustainability of the measures already in place, and implementation of the reforms going forward. Developments on implementation of these measures will allow staff to consider whether sufficient progress has been made to discontinue the annual monitoring of safeguards rolling measures and thereby revert to the four-year cycle of assessments for regional central banks.

Exchange Rate Arrangement:

The regional currency is the CFA franc. From 1948 to 1999, it was pegged to the French franc. Since the euro was introduced in 1999, it has been pegged to the euro at the rate of CFAF 655.957 per euro.

Gabon (and the other CEMAC members) became Article VIII members on June 26, 1996. Like other members of CEMAC, Gabon has accepted the obligations of Article VIII, Section 2, 3 and 4 of the IMF Articles of Agreement. Gabon levies a tax on wire transfers, including for the making of payments and transfers for current international transactions, which gives rise to an exchange restriction subject to Fund approval under Article VIII, Section 2(a) of the Fund's Articles of Agreement, The authorities have exempted certain transactions from the tax; however, the tax continues to apply to other transfers subject to Fund jurisdiction.

Article IV Consultations:

(a) Gabon is on a 12-month Article IV consultation cycle.
(b) The Executive Board concluded the last Article IV consultation with Gabon on February 13, 2013

FSAP Participation and ROSCs:

A national module for Gabon of the joint IMF/World Bank Financial Sector Assessment Program (FSAP) was completed in 2002 and discussed by the Executive Board in March 2002 (IMF Country Report No. 02/98). The first regional Financial Sector Assessment Program (FSAP) was carried out January-March 2006, and a regional FSAP Update is currently under preparation. Regional Reports on Observance of Standards and Codes (ROSCs) were done in the areas of monetary and financial policy transparency, banking supervision, and anti-money laundering and combating the financing of terrorism (AML/CFT) in June 2006.

Resident Representative:

The Fund no longer has a resident representative in Libreville and the IMF office is staffed with a local economist.

Technical Assistance:

A. Central Africa Regional Technical Assistance Center (AFRITAC)

Area	*Focus*	*Time of Delivery*
Revenue Administration	Further development of automated Customs risk management system	Nov. 2014
Public Financial Management	Strengthening budget execution	Oct. 2014
Banking Supervision	Workshop on financial stability	Sep. 2014
Public Financial Management/Revenue Administration/Debt Management	Multisector workshop on development and implementation of government cash management frameworks	Sep. 2014
Revenue Administration	Launching an automated performance assessment and measurement program for LTO	June 2014
Revenue Administration	Developing an automated Customs risk management system	May 2014
Revenue Administration	Strengthening VAT audits of commercial and trader operations	April 2014
Revenue Administration	Improving collection and enforcement procedures	Mar. 2014
Revenue administration	Modernizing VAT refund procedures for large taxpayers	Feb. 2014
Macroeconomic Statistics	Developing Quarterly National Accounts	Oct. 2013

Public Financial Management	Strengthening budget and accounting systems	Sep. 2013
Banking Supervision	Workshop on risk based banking supervision	Sep. 2013
Public Financial Management	Strengthening budget execution	Aug. 2013
Revenue Administration	Strengthening management and internal audit procedures	July 2013
Debt Management	Implementing governance framework for the issuance of public securities	June 2013
Macroeconomic Statistics	Review of industry survey results	May 2013
Public Financial Management	Strengthening budget execution	May 2013
Governance Finance Statistics	Implementing a Statement of Government's Financial Operations	April 2013
Revenue Administration	Strengthening VAT administration	April 2013
Macroeconomic Statistics	Developing Quarterly National Accounts	April 2013
Public Financial Management	Workshop on program budgeting	Feb. 2013
Macroeconomic Statistics	Updating the Government Financial Operations Table(TOFE)	Feb. 2013

B. Headquarters

Department	*Purpose*	*Time of Delivery*
FAD	PEFA assessment and PFM reforms	May 2014
FAD	Custom administration	March 2014
FAD	PEFA assessment	Dec. 2013
FAD	Public finance management	July 2013
FAD	Short term expert visit on PFM (4 visits)	Thru 2013–14
FAD	Short term expert visit on Customs (5 visits)	Thru 2013–14

RELATIONS WITH THE WORLD BANK

Title	Products	Provisional timing of missions	Expected delivery date
A. Mutual information on relevant work programs			
The World Bank work program in the next 12 months	**World Bank advisory services** are ongoing in the following areas:		
	- **Statistics:** Under the US$1.3 million Statistics Reimbursable Advisory Services (RAS) the Bank will provide long term strategic advice to the national statistics office and the implementation of the national statistics strategy and a targeted assistance for the implementation of a new household survey- *Enquête Gabonaise pour l'Evaluation de la Pauvreté* (EGEP II);	Missions to be spread over FY15 and FY 16.	June 2016
	- **Management: Improvement of the budgetary cycle:** A US$700,000 agreement was signed in March 2014 to continue the implementation of PFM tools developed under the previous RAS;	Missions to be spread over FY15 and FY 16.	June 2016
	- **Tax system reform:** Through the US$1 million Tax System Reform RAS which is a follow up of the diagnostic of tax system carried out under the first RAS signed in 2012, the Bank will assist the authorities on the rationalization of the tax exemptions system, the rationalization of the tax structure, and the implementation of a risk based audit system.	Missions to be spread over FY15 and FY 16.	June 2016
	Discussions are progressing well on the developments of two others RAS :		
	- Macro fiscal Management: a macro fiscal management TA that aims at supporting Gabon on the implementation of the National Development Plan Gabon Emergent and to create the required human and	Missions to be spread over FY15.	Signatures of the agreements are expected in CY 2015.

	institutional capacity in the country for that purpose; - Natural Capital Accounting for the forestry sector.		
	Growth and employment policy note, This note analyzes the main reasons for the weak impact of growth on employment and develops recommendations for more inclusive growth.	Completed	Delivered in June 2013.
	Export Diversification and Competiveness Policy note. This note synthesizes Gabon's non-oil export potential provides sector-specific recommendations to address the challenges of export diversification.	Completed	Delivered in September 2014.
	World Bank lending: - A US$18 million Investment Promotion and Competitiveness project was approved in March 2014 .The objective of the Project is to contribute to the improvement of the investment climate and foster enterprise development in Gabon. The Project consists of three components: (i) institutional development to improve business climate; (ii) support to enterprise development and; (iii) project coordination and public-private dialogue. - A US$58 million IBRD Loan for the Central African Regional and National Backbone project (CAB4) supporting the development of high speed telecommunication infrastructure was signed in May 2012. - A US$60 million access to basic services project (Energy) responds to the expectations of the new GoG, and is being finalized. - A US$ 8.5 million GEF wetlands grant aims to enhance protection of biodiversity in selected forested wetlands on the Ramsar list through knowledge creation and development of conservation measures for sustainable wetlands management.	The last mission took place in November 2014. The project is effective. Last supervision mission took place in May 2014. Technical discussions between the WB and the authorities took place in November 2014. The implementation of the project started in November 2014. First supervision mission took place in November 2014.	The effectiveness date was extended to March 2015. 5 year project 5 year project The project is expected to be presented to the Board in May 2015.

	- A US$ 100 million Infrastructure and Local Development Program II is under preparation. It aims at improving access of the population living in targeted low income settlements to basic urban services. The project concept review meeting took place on November 18, 2014. - A US$100 million Skills for Employability Support Project is under preparation. The overarching objective of the project is supporting youth employability in Gabon to address the twin goals of promoting shared prosperity and reducing extreme poverty.	The preparation mission is scheduled for December 2014. The next preparation mission is scheduled for December 2014.	The project is expected to be presented to the Board in CY 2015. The project is expected to be presented to the Board in CY 2015.
	IFC investments: IFC is currently considering investments in the Petrochemicals industry and Infrastructure sectors in Gabon. Current investment leads include: - SETRAG (privately owned and operated national rail company). IFC to be lead arranger of SETRAG's capital expenditure program after a one-year financial restructuring mandate. - Gabon oil refinery: IFC looking to be lead arranger of project finance for a greenfield refinery project sponsored by Samsung from South Korea and Gabon Oil Company. - Gabon Fertilizer Company: IFC has been closely involved in project financing discussions for a large gas to fertilizer manufacturing ventured sponsored by Olam Gabon; the project is currently on hold until a credible strategic partner from the petrochemicals and fertilizer industry is identified by Olam. - Ngoulmendjim hydro-power project: the Ministry of Energy has formally expressed interest in having IFC	Missions to be spread over CY 2015.	

	support this Independent Power Project and duly shared feasibility studies. IFC Infraventures may be involved as joint project developer alongside Gabon's Strategic Investment Fund and Eranove, the project's anchor developer. - Libreville ring road: IFC currently scoping a possible toll road project that it could help structure and finance.		
	IFC investment climate advisory services: IFC is providing technical assistance to improve the business environment in selected areas measured by the *Doing Business* report. Four priority areas were defined: - **Business creation** for foreign and domestic investors. - Procedures for **construction permits and access to property** by creating a one-stop shop. - Procedures to **import and export goods.** - **Tax incentives and tax administration** (in coordination with other WB support in this area).	Completed	
	SME capacity building: IFC has a partnership agreement with the *Banque Gabonaise de Développement* (BGD) to provide support and training to SMEs.	March 2013: Official launch of the SME Toolkit website.	March 2013
B. Requests for work program inputs			
Bank request to Fund	Update on macroeconomic framework Article IV documents.		FY13
C. Agreement on joint products and missions			
Joint products in the next 12 months	Collaboration on data on non-oil sector growth.		Ongoing

STATISTICAL ISSUES

GABON—STATISTICAL ISSUES APPENDIX As of November 20, 2014
I. Assessment of Data Adequacy for Surveillance
General. Data provision has some shortcomings, but is broadly adequate for surveillance. Staff's analysis is affected by shortcomings in the accuracy, reliability and adequacy of periodicity and timeliness for certain data, as well as consistency between datasets. The statistical producing agencies do not have sufficient access to source data and lack an institutional framework in which to share information and coordinate compilation efforts. To monitor progress in the implementation of PSGE, household surveys should be conducted and disseminated regularly. Gabon participates in the General Data Dissemination System (GDDS), but has not updated the metadata or plans for improvement since 2002. Except for consumer prices, the authorities do not report any real sector or government finance statistics (GFS) to STA for publication in *International Financial Statistics (IFS)* or for electronic dissemination. Detailed economic and financial statistics, including long historical time series, are published in the *Tendances de l'Économie*, issued twice a year by the General Directorate of Statistics and Economic Studies (DGSEE) of the Ministry of Economy, Trade, Industry, and Tourism. More recent sectoral developments are described in detail in the *Tableau de Bord de l'Économie*, issued quarterly by the Ministry of the Economy.
National Accounts. Central AFRITAC (AFC) is working with authorities to incorporate the System of National Accounts 1993 methodological recommendations. A new series of national accounts, covering the period 2001-2009 has been prepared. Compilation of national accounts for 2010-2013 is underway, and the whole new series should be released soon after the 2010-2013 accounts have been completed. AFC is also assisting Gabon with the implementation of quarterly national accounts and related indicators. **Employment and unemployment.** Data on unemployment and the total labor force are not systematically available.
Price Statistics. In 2007 the authorities began publishing an 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. The CPI only covers the capital city of Libreville.
Government Finance Statistics. A major shortcoming is limited institutional coverage, as social security operations are not included in the Statement of Operations of either the central or the general government. Audited accounts of oil sector operations are generally available annually and sometimes quarterly, but with a significant reporting lag. Other needed improvements include the recording of government-owned capital formation financed by oil companies and the recording of government arrears. Data provided for surveillance purposes are based on *GFSM 1986*. Gabon does not provide GFS

data to the IMF for inclusion in the *Government Finance Statistics Yearbook* nor the *International Financial Statistics*.

Monetary and Financial Statistics. The Bank of Central African States (BEAC) regularly reports in electronic form monthly monetary, interest rate, and exchange rate statistics for Gabon and other CEMAC member countries for publication in the *IFS*, but delays occur sometimes in the submission of data. Institutional coverage of the monetary statistics for Gabon is comprehensive, but accuracy is affected by cross-border movements of currency among CEMAC member countries.
In mid-2007, the BEAC started a project to migrate monetary statistics of CEMAC member countries to the methodology of the *Monetary and Financial Statistics Manual (MFSM)*. As part of this project, a regional workshop was organized by the BEAC in December 2007 to finalize the mapping of source data from commercial banks to the *MFSM* concepts and framework. STA participated in this workshop to provide guidance and advice. The BEAC has recently submitted test monetary data for Gabon using the standardized report forms for the period January 2000–December 2007.

Financial Sector Surveillance.
Gabon Does not report Financial Soundness Indicators (FSIs) to STA.

External Sector Statistics. Balance of payments statistics are compiled by the national directorate of the BEAC and the estimates are validated by staff from BEAC headquarters. Data are disseminated with considerable delay and they have not been submitted for publication in the *IFS* since 2006. Since 1995, compilation of balance of payments statistics has conformed to the *Balance of Payments Manual*, 5th edition. Source data are collected through: (i) surveys of enterprises by the central bank (the 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. Data on other items of the current account are not very reliable or accurate due to low response rates to enterprise surveys, despite partial correction through adjustments. Foreign direct investment in the financial account is likely to be underestimated owing to insufficient detail in the oil sector survey. The magnitude and detailed breakdown of private capital flows, particularly short term, suffer because data are not comprehensive.

There are comprehensive data on the stock of external public debt and its composition, as well as detailed projections on debt service due. Data are provided, usually to Fund missions, by the General Directorate of Public Debt and Accounting (*Direction générale de la comptabilité publique*) of the Ministry of Budget and Public Accounts.

GABON: Table of Common Indicators Required for Surveillance

(As of November 20, 2014)

	Date of latest observation (For all dates in table, please use format dd/mm/yy)	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]
Exchange Rates	Dec. 2012	Dec. 2012	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Oct. 2012	Jan. 2013	M	M	M
Reserve/Base Money	08/14	23/10/14	M	M	M
Broad Money	08/14	23/10/14	M	M	M
Central Bank Balance Sheet	08/14	23/10/14	M	M	M
Consolidated Balance Sheet of the Banking System	08/14	23/10/14	M	M	M
Interest Rates[2]	09/14	20/10/14	M	M	M
Consumer Price Index	08/14	12/11/14	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	08/14	23/10/14	M	Q	N/A
Revenue, Expenditure, Balance and Composition of Financing[3] – Central Government	June 2012	Dec. 2012	M	Q	N/A
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Dec. 2011	Dec. 2012	Q	Q	N/A
External Current Account Balance	Dec. 2011	Dec. 2012	I	M	A
Exports and Imports of Goods and Services	Dec. 2011	Dec. 2012	M	M	I
GDP/GNP	2008	Dec. 2012	A	I	A
Gross External Debt	Dec. 2011	Dec. 2012	Q	I	I
International Investment Position[6]	N/A	N/A	N/A	N/A	N/A

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

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

[3] Foreign, domestic bank, and domestic nonbank financing.

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

[5] Including currency and maturity composition.

[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

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

Press Release No. 15/68
FOR IMMEDIATE RELEASE
February 23, 2015

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2014 Article IV Consultation with Gabon

On February 18, 2015, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Gabon.

Gabon's growth performance has recently been strong, but fiscal pressures have increased significantly. Real GDP growth has averaged about 6 percent in the last four years on the back of substantial scaling-up of capital spending as the authorities implement their strategy *Plan Stratégique Gabon Emergent* (PSGE) to promote economic diversification and growth inclusiveness. The external current account has been in surplus, while inflation has remained in the low single digits. Partly as a result of the scaling up in public investment, the fiscal situation has come under pressure and arrears have been accumulated, notwithstanding historically high oil prices until recently.

The medium-term growth outlook has weakened as a result of the sharp decline in oil prices, but is expected to remain relatively strong. Growth is expected to be driven by a number of projects underway in agro-industry, mining, and wood processing. The government is aiming to keep public debt below its target of 35 percent of GDP in the medium run by broadening the non-oil tax base, controlling growth in current spending, and moderating public investment growth after significantly cutting it in 2014. To protect infrastructure investment in the face falling oil revenues spending, the government intends to have recourse to the international capital markets for financing.

The main downside risks to the economic outlook in the short to medium term is an insufficient adjustment to fiscal policy, leading to further depletion of fiscal buffers, and weak investment execution capacity. Both could lead to further depletion of fiscal buffers and insufficient fiscal space to implement the PSGE and address binding constraints to growth, such as infrastructure bottlenecks, lack of qualified labor, and a weak business environment. In turn, lower oil prices

[1]Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

and failure to implement PSGE could considerably reduce much needed non-oil growth. In the longer run, there is upside potential to raise growth if the binding constraints are addressed.

Executive Board Assessment[2]

Directors welcomed the robust economic growth in recent years under favorable economic conditions, but regretted that growth has not been sufficiently inclusive or broad-based, with poverty and unemployment rates remaining high. Directors expressed support for the authorities' diversification strategy, predicated on improvements in infrastructure and human capital development, and an acceleration in business climate reforms. With the recent major decline in oil prices, Directors underscored the need for the diversification strategy to be financed sustainably.

Directors supported the authorities' efforts to adjust the fiscal stance in 2014, in order to avoid a rapid escalation of public debt levels and an accumulation of arrears, given weaker oil revenues. Noting that investment spending was unsustainably high during 2010-13, Directors agreed that the expenditure cuts in 2014 preserved infrastructure development while promoting fiscal sustainability. They also welcomed the authorities' intention to adopt a revised budget for 2015 reflecting recent oil price trends.

Looking ahead, Directors underscored the need for further fiscal adjustment to rebuild policy buffers while preserving medium-term fiscal sustainability. They noted that this would require curbing growth in current spending, including the wage bill, and effectively phasing out general oil subsidies, while safeguarding priority infrastructure and social spending. Directors also highlighted the need to expand the non-oil tax base, notably by reducing tax exemptions and improving tax administration. In addition, efforts to improve the management and transparency of the public finances should be sustained, and the quality of public investment improved. In this context, Directors welcomed the authorities' efforts to increase the transparency of natural resource revenues and commitment to become compliant with the Extractive Industries Transparency Initiative (EITI) during 2015.

Directors called for stepped-up efforts to boost external competitiveness through structural reforms designed to reduce factor costs. They recommended "horizontal" policies aimed at improving the business climate—such as addressing infrastructure bottlenecks in energy and transport; boosting investment in human capital; and strengthening the business regulatory framework. Noting the potential for regional spillovers, Directors encouraged the authorities to lead by example and play a constructive role in setting and implementing appropriate common

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

policies within CEMAC (Economic Community of Central African States) to support regional stability and growth.

Directors supported efforts to improve financial depth and inclusion, including through the establishment of a credit registry. They called for a strengthening in the supervisory capacity of the regional banking supervisory authority, COBAC (Commission Bancaire de l'Afrique Centrale), and for prompt actions to address the weak financial situation of the three distressed public banks and to enhance the monitoring of the microfinance sector. Directors looked forward to the completion of the ongoing regional FSAP (Financial Sector Assessment Program) exercise.

Directors encouraged the authorities to improve data quality and timeliness, with Fund technical assistance. They also noted that Gabon maintains a tax on wire transfers, which is inconsistent with its obligations under Article VIII

Gabon: Selected Economic Indicators, 2012–20

	2012	2013	2014	2015	2016	2017	2018	2019	2020
	Est.	Est.	Prel. Est.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
	(Annual percent change, unless otherwise indicated)								
Real sector									
GDP at constant prices	5.5	5.6	5.1	4.4	5.5	5.6	5.7	5.7	5.9
Oil	-4.4	-0.9	2.5	0.1	2.0	1.7	1.6	1.3	1.1
of which: primary oil	-4.2	-5.3	-0.9	-6.0	0.1	-0.4	-0.6	-1.3	-1.6
Non-oil	10.4	7.9	5.9	5.8	6.5	6.8	6.9	6.9	7.1
GDP deflator	-16.8	-2.7	-4.6	-9.4	2.6	1.9	0.5	0.0	0.6
Oil	-6.4	-5.1	-9.1	-30.7	10.8	4.7	1.8	-0.2	0.1
Consumer prices									
Yearly average	2.7	0.5	4.5	2.5	2.5	2.5	2.5	2.5	2.5
External sector									
Exports, f.o.b.	9.1	-6.0	-5.7	-41.3	13.3	9.7	6.3	3.7	1.1
Imports, f.o.b.	-4.2	9.0	4.5	-22.4	8.6	9.6	9.6	9.0	7.9
Terms of trade (deterioration= –)	-14.2	1.7	-5.9	-40.2	11.6	6.2	2.7	0.1	-0.8
Central government finance									
Total revenue	6.1	-0.6	-9.6	-24.3	17.0	9.0	7.4	5.5	6.5
Oil revenue	12.5	-12.2	-8.7	-52.2	37.4	7.5	3.1	-0.6	-0.6
Total expenditure	9.8	-1.2	-14.2	-3.6	6.1	4.7	5.4	6.3	8.3
	(Percent of GDP, unless otherwise indicated)								
Non-oil primary balance (in non-oil GDP)	-25.1	-19.6	-15.0	-11.6	-11.2	-9.8	-8.9	-8.2	-7.9
Overall balance (commitment basis)	2.6	1.8	2.9	-3.1	-0.9	0.1	0.6	0.4	0.0
Overall balance (cash basis)	2.4	0.2	-2.2	-3.8	-2.2	-1.1	0.6	0.4	0.0
Net domestic financing	-3.6	-10.1	2.7	0.6	-1.6	1.4	-2.6	-2.3	-1.5
Net external financing	-0.4	9.7	0.6	4.5	4.6	0.1	1.8	1.7	1.5
External public debt (including to the Fund)	17.2	24.0	24.3	30.5	31.5	29.3	28.9	28.7	28.1
Total public debt (Percent of GDP)	21.1	26.9	27.7	34.4	35.7	33.7	33.2	32.9	31.9
	(Percent Change, unless otherwise indicated)								
Money and credit									
Credit to the economy	24.1	23.6	-7.5	7.2	7.5	9.0	7.3	7.4	9.3
Broad money	15.7	8.8	1.4	4.2	4.0	5.5	4.8	4.8	8.3
	(Percent of GDP, unless otherwise indicated)								
Gross national savings	42.3	40.6	36.9	28.5	30.4	31.9	33.3	33.2	33.5
Gross fixed investment	21.0	25.8	25.8	30.9	31.2	31.8	33.6	35.2	36.3
of which: private	9.0	14.9	18.7	23.5	24.6	24.9	26.1	27.2	27.7
public	12.0	10.9	7.1	7.4	6.7	7.0	7.5	8.0	8.5
Current account balance	21.3	14.8	11.1	-4.0	-0.4	0.3	-0.1	-1.8	-2.9

Sources: Gabonese authorities and IMF staff estimates and projections.

Statement by Mr. Ngueto Tiraina Yambaye, Executive Director for Gabon and Mr. Nguema-Affane, Senior Advisor to the Executive Director February 18, 2015

On behalf of my Gabonese authorities, I would like to express my appreciation to the Executive Board, Management and staff for their continued advice and technical assistance to Gabon. My authorities found very useful the Article IV discussions with staff held in Libreville in November 2014. They appreciate staff recommendations and inputs in their economic policy agenda.

Over the past two years, my Gabonese authorities have pursued the implementation of their national development plan, *Plan Stratégique Gabon Emergent* (PSGE), which was rolled out in 2010. This plan, which is underpinned by a large public investment program and a set of institutional and structural reforms, aims at accelerating the structural transformation of the Gabonese economy in order to diversify sources of growth and reduce its dependence on oil. My authorities seized the opportunity offered by continued high level of oil prices in the past few years to accelerate the implementation of the PSGE, which is boosting economic activity in the country. GDP grew consistently by more than 5 percent annually since 2010 driven by the large public infrastructure projects and expansion of the non oil sector. In order to make growth more inclusive, the social component of the PGSE was strengthened following a study on poverty in Gabon by a global management consulting firm and a national roundtable on social policy held in April 2014.

However, in light of the experience gained during the four years of implementation of the PSGE, my Gabonese authorities decided to slow down its pace in order to align related expenditures with the absorptive capacity of the country and the level of budgetary resources, and preserve fiscal sustainability. The 2014 budget was revised accordingly in July 2014 with notably a halving of the public investment spending. Furthermore, as international oil prices declined sharply toward end-2014, my authorities withdrew the initial draft 2015 budget they had already submitted to the Parliament to prepare a new draft with more conservative revenue assumptions. In January 2015, following a 3-day governmental retreat to further examine the impact of the oil price shock, several adjustment policies were adopted to maintain the fiscal sustainability of the PSGE. Many of the measures taken are consistent with staff recommendations and will be reflected in the 2015 budget under revision.

Recent economic developments

Real growth slowed down but remained high in 2014 at 5.1 percent, down from 5.6 percent in 2013. The lower growth reflects the cutback in public investment spending decided in mid-2014. Growth was driven by a good performance in the mining and wood-processing sectors. Due to base effects, inflation rose sharply from 0.5 percent in 2013 to 4.4 percent in 2014. The sustained high level of international commodity prices translated in large current account surpluses since 2010. As those prices weakened towards the end of 2014, the current account surplus declined in 2014.

The fiscal position continued to be under pressure due to the high level of expenditures related to the implementation of the PSGE. Despite curtailing public investment, the fiscal overall balance in cash basis turned negative in 2014, owing to an acceleration of arrears payments and VAT reimbursements. Public debt remained low at 27.6 percent of GDP in 2014, well below the regional convergence criterion of 70 percent and the Gabonese authorities' self-imposed debt ceiling of 35 percent. Gabon successfully issued a US$ 1.5-billion eurobond in December 2013.

The financial soundness indicators show that the banking sector is liquid, profitable and well-capitalized, with a low level of non-performing loans (NPLs). My authorities have appointed international experts to undertake an assessment of the three banks experiencing financial difficulties and define an action plan towards their resolution.

On the structural front, my authorities pursued policies aimed at improving the business climate. In particular, they streamlined the institutional framework for investment promotion with the creation of a special agency for that purpose in 2014. In addition, delays to open a business, process construction permits and get utility connections for businesses have been considerably reduced. As regard transparency in oil revenue management, my authorities have adopted an action plan to become EITI-compliant in 2015.

As indicated above, social policy took a center stage in the PSGE following a study on poverty in Gabon conducted in 2013 showing that poverty remains widespread despite having one of the largest per capita GDP in Africa and posting a strong growth performance. Therefore, in order to forcefully address unemployment and poverty, my authorities launched in 2014 several initiatives that aim, among others, at promoting income-generating activities, developing human capital and improving the social conditions of the most vulnerable segments of the population. In particular, an agricultural program, *Programme GRAINE*, developed in partnership with a Singapore-based multinational corporation, was launched to promote the development of agriculture through the provision of a multiform assistance to producers organized in cooperatives. Through this program, my authorities expect to increase individual empowerment and tackle rural exodus while improving land use planning and contributing to economic diversification.

In the same vein, institutions in charge of providing vocational training and promoting employment are being reformed or created to better respond to labor market needs and increase prospects of professional integration and reintegration. In particular, an Oil and Gas Institute has been inaugurated in early 2014 and a Mining and Metallurgy school is expected to open in September 2015. Moreover, the national employment office will open branches in the main cities, besides the capital city, to better assist jobseekers. Furthermore, social safety nets are being strengthened through various schemes to facilitate access to utilities, health services and affordable housing.

Policies for 2015 and beyond

My authorities are determined to maintain economic and social growth over the medium term while preserving macroeconomic stability and fiscal sustainability. They agree that the recent oil price shock is complicating the implementation of their development plan and has adversely affected the country's medium term economic prospects. Nevertheless they remain committed to further progress in upgrading infrastructure while enhancing the quality of investment, developing human capital and accelerating structural reforms in order to remove bottlenecks to economic diversification and improve the country's competitiveness.

As Gabon continues to maintain good sovereign ratings from international rating agencies despite the adverse international environment, my authorities agree that preserving these ratings hinges on their ability to pursue prudent policies in order to maintain fiscal and debt sustainability and improve the attractiveness of the country. This is all the more important that they plan to tap international markets in 2015 to finance capital spending over the medium-term. This consideration, together with the objective of sustained economic and social growth, was prominently reflected in the recent package of adjustment policies identified during the governmental retreat last month to respond to the oil price shock.

These policies aim to improve oil revenue management, improve domestic revenue mobilization, contain current expenditures, and accelerate public financial management reforms. My authorities have already started to act on these recommendations with the adoption of many measures including the suppression of petroleum subsidies, the creation of an oil price stabilization fund, the launching of a civil service reform and the merger of two large public works agencies with similar missions. Short-term measures to improve non oil revenue performance and reduce nonessential expenditures have also been adopted. All these measures will be reflected in the 2015 budget currently being finalized.

The budget for 2015 is being revised with very conservative oil price and exchange rate assumptions. The budget envisages a significant reduction of current expenditures while preserving social and investment spending. Despite the fiscal adjustment measures taken and contemplated, a financing gap is expected to emerge, which my authorities envisage to fill through rescheduling domestic debt and issuing a eurobond. Until the finalization of the budget, only 15 percent of the initial draft budget for 2015 will be executed. My authorities are committed to remain current in VAT reimbursements and pursue the payments of external arrears.

My authorities will accelerate fiscal-related reforms, with the assistance of international organizations. Public financial management and tax administration will be strengthened in line with the recommendations in the PEFA report and Fund TA reports. In addition, the civil service reform underway aims, among others, at improving the management of civil service administration and reviewing the compensation system with a view to containing the wage bill.

On tax policy, my authorities continue to believe that tax on non-bank wire transfers does not affect cash transfers and is consistent with proposals in the international arena to tax capital flows. Furthermore, the removal of this tax remains a politically sensitive issue as the proceeds of this tax go to the health insurance fund. Likewise, they do not intend to make changes to the incentives for businesses operating in the special economic zones (SEZs) as these incentives are critical to the successful development of the zones. However, they plan to follow through on the governmental retreat's recommendation to eliminate existing tax exemptions with no legal basis, in order to improve domestic revenue mobilization.

As regards the development of the financial sector, my authorities will continue reforms to increase financial access and depth in the economy. In particular, the credit registry being set up is expected to lower barriers to finance. They will continue to monitor closely the development of microfinance to preserve the soundness of this growing segment of the financial sector.

My authorities agree with the staff's assessment of risks to Gabon's growth outlook and the expected impact on the economy if they materialize. They believe that the actions already taken go in the right direction towards reducing downside risks identified by staff. They remain committed to implement their adjustment policies and stand ready to take additional adjustment measures if necessary.

Conclusion

My Gabonese authorities have continued to implement their ambitious development plan in 2013 and 2014 and have strengthened its social component to ensure a more inclusive growth. They have adjusted its pace of implementation to make it consistent with the country's absorptive capacity and level of resources. More recently, my authorities took additional adjustment measures to cope with the oil price shock. In particular, they decided to set up an oil revenue stabilization fund in order to shield the budget from the oil price swings in the future and hence preserve the fiscal sustainability of the PSGE. Looking forward, my authorities agree that maintaining growth momentum in 2015 represents a significant challenge given the current adverse external conditions. They are committed to pursuing prudent macroeconomic policies and structural reforms in order to improve the competitiveness of the economy and rebuild buffers. They will continue to monitor economic developments and take additional actions to meet their policy objectives as needed.