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July 30, 2020

**Statement by Ms. Mannathoko and Mr. Jappah on Gabon
(Preliminary)
Executive Board Meeting 20/86
July 31, 2020**

We thank staff for the report and Messrs. Raghani and Nguema-Affane for their helpful Buff statement. Since the Executive Board's approval of the first tranche of emergency financing under the Rapid Financing Instrument (RFI) in April 2020, the economic outlook has worsened as the impact of the twin Covid-19 and oil price shocks plays out, with staff now projecting a 2.7 percent real GDP contraction in 2020, compared to the initial 0.4 percent projection. **Against this background, we support the authorities' second request for a purchase under the RFI to help address growing financing needs.** We note the authorities' commitment to further improve transparency and accountability to ensure the proper use of COVID-19-related financing. We hope this purchase will support efforts to catalyze additional financing from development partners.

COVID-19 and scarring: We wish to highlight the importance of averting significant scarring in the economy. We note that COVID-19 resources devoted to supporting businesses have barely been spent. We however welcome the collaboration among the authorities, the Central African Regional and Monetary Community (CEMAC), and COBAC, the regional supervisor, to define access modalities for support, while safeguarding banking sector stability. *Could staff clarify if there are plans to use digital and fintech solutions as these are often more effective than traditional solutions?*

Fiscal response: The adoption of a revised budget for this year with a larger deficit to accommodate automatic stabilizers and crisis-related emergency spending, is appropriate. Once the crisis abates, the deterioration in fiscal balances and escalation in debt will require focused attention, including through timely fiscal consolidation and enhancements to debt management. We welcome revisions to the 2020 finance law which should help to rein-in the fiscal deficit and support efforts to preserve debt sustainability. Expenditure reprioritization and curtailing arrears accumulation will play an important role in this regard.

Debt dynamics: Given the sharp deterioration in debt dynamics alongside debt service pressures, refinancing the remaining debt service of the commercial bridge loan from AFREXIM due in 2020 should be prioritized. We also urge the authorities to formulate a credible medium-term debt strategy with staff support, to deal with the large maturities falling due from official and Eurobond financing and the risks to the debt profile from current growth and exchange rate shocks. *Can staff comment on their expectations regarding further growth and exchange rate shocks and the debt profile? Please also elaborate on contingency plans for this adverse shock scenario.*

Financial sector: We note the enhanced support to the financial sector provided by the regional central bank, BEAC and the regional banking supervision body, COBAC including through the relaxation of refinancing criteria and the adoption of a restrictive policy for banks' dividend distribution. We however urge the authorities to monitor the banking sector closely, given weakened economic activity and its possible impact on bank balance sheets through increased non-performing loan ratios and provisioning requirements. We are encouraged by the authorities' commitment to avoid accumulation of new domestic arrears as these would only serve to exacerbate solvency risks in firms, and we welcome the strategy being prepared to settle the stock of verified government arrears, which have constrained liquidity in firms.

With these remarks, we wish the Gabonese authorities success in overcoming the COVID-19 crisis.