



Executive Board Minutes 20/86-2

July 31, 2020–12:35 p.m.

Gabon - Request for Purchase Under the Rapid Financing Instrument

Documents: EBS/20/133 and Sup.1 and Sup.2

Staff: Loko, AFR; McGrew, SPR

Length: 31 minutes

ISSUED: July 6, 2022

APPROVAL: July 13, 2022

CEDA OGADA
Secretary

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¹ Minutes are the official record of a formal Board meeting in which the Board may adopt decisions and reach understandings related to the business of the Fund. Staff background documents issued before the meeting are the principal basis for the meeting. Preliminary “gray” or “buff” statements by Executive Directors and staff’s responses to Directors’ technical questions are circulated prior to the meeting. Adopted decisions and/or summings up—the Chair’s “sense of the meeting” or policy conclusions/recommendations—are issued after the meeting. The minutes include all these elements, as well as the discussion record (a verbatim transcript of the discussion lightly edited for clarity). Minutes are made public consistent with the IMF’s Transparency Policy and Open Archives Policy.

THE ACTING CHAIR'S SUMMING UP

Executive Directors acknowledged the authorities' progress in implementing swift measures to limit the spread of the virus and mitigate the pandemic's social and economic impact. They noted, however, that a further deterioration of the global environment and a deepening of the impact of the COVID-19 pandemic have worsened the macroeconomic outlook significantly since the first Request for Financing Instrument (RFI), giving rise to additional financing needs. The new RFI request will provide budgetary support and help catalyze additional support from development partners.

Directors welcomed the temporary loosening of monetary and fiscal policies aimed at mitigating the impact of the crisis and supporting the recovery. Key measures appropriately focus on boosting healthcare capacity as well as protecting the most vulnerable and supporting businesses in a timely and well-targeted manner.

Directors highlighted the importance of ensuring transparency and accountability in the management of public resources, including COVID-19 related financing. They welcomed the authorities' commitment to strengthen public procurement rules by publishing all crisis-related procurement contracts and an ex-post validation of delivery for these contracts, as well as their plans to conduct an independent audit of emergency expenditures.

Directors noted that, while public debt remains sustainable, debt dynamics have worsened and risks to debt sustainability have increased significantly. They encouraged the authorities to give priority to external concessional financing, debt reprofiling, and develop a credible medium-term debt management strategy along with prudent fiscal policies for managing large financing needs in the medium term. Close monitoring of fiscal risks from state-owned enterprises and clearing and avoiding accumulation of arrears are also important. The authorities' recent completion of their domestic arrears audit was a positive development. More broadly, Directors emphasized the importance of contingency planning to preserve macroeconomic stability, should downside risks materialize.

Directors encouraged the authorities to continue to monitor financial sector risks, in coordination with the regional entities, to ensure financial sector stability.

EXECUTIVE BOARD DECISION

The Executive Board took the following decision:

Gabon - Request for Purchase Under the Rapid Financing Instrument

1. Gabon has requested a purchase in an amount equivalent to SDR 108 million (50 percent of quota) under the Rapid Financing Instrument.
2. The Fund notes the intentions of Gabon as set forth in the letter dated July 23, 2020 from the Minister of Economy and Finance, and approves the purchase in accordance with the request.
3. The Fund waives the limitation in Article V, Section 3(b)(iii). (EBS/20/133, Sup. 1, 07/30/20)

Decision No. 16865-(20/86), adopted
July 31, 2020

EXECUTIVE BOARD ATTENDANCE¹

M. Furusawa, Acting Chair

Executive Directors

M. Raghani (AF)

L. Villar (CE)

L. Levonian (CO)

A. Buisse (FF)

S. Bhalla (IN)

M. Mouminah (SA)

P. Inderbinen (SZ)

Alternate Executive Directors

I. Mannathoko (AE)

C. Moreno (AG), Temporary

A. Park (AP), Temporary

Z. Mohammed (BR), Temporary

P. Sun (CC)

S. Benk (EC)

K. Merk (GR)

M. Psalidopoulos (IT)

K. Chikada (JA)

M. El Qorchi (MD)

D. Fadhel (MI), Temporary

H. Etkes (NE), Temporary

J. Sigurgeirsson (NO)

L. Palei (RU)

K. Tan (ST)

D. Ronicle (UK)

N. Shenai (US), Temporary

S. Bhatia, Acting Secretary

E. Tsounta, Summing Up Officer

D. Jiang, Board Operations Officer

M. Eddy, Verbatim Reporting Officer

Also Present

African Department: J. Dridi, V. Kramarenko, B. Loko, L. Mbogo, K. Nassar, M. Poplawski
 Ribeiro, A. Selassie, F. Sow, J. Toujas-Bernate. Communications Department: L. Mbotu
 Fouda. Fiscal Affairs Department: B. Imbert. Legal Department: J. Swanepoel. Monetary and

¹ For countries in each constituency, please see the Constituency Codes in the annex.

Capital Markets Department: J. Portier. Strategy, Policy, and Review Department: D. Daly, W. McGrew. World Bank Group: R. Singh. Executive Directors: A. Andrianarivelo (AF), A. Mahasandana (ST). Alternate Executive Directors: S. Geadah (MI), C. Just (EC), P. Rozan (FF), F. Sylla (AF). Senior Advisors to Executive Directors: S. Ahmed (MD), J. Damgaard (NO), R. Farber (US), B. Jappah (AE), B. Lischinsky (AG), T. Nguema-Affane (AF), S. Potapov (RU), M. Sidi Bouna (AF), N. Thiruvankadam (IN). Advisors to Executive Directors: D. Andreicut (UK), S. Belhaj (MD), E. Cartagena Guardado (CE), Z. Huang (CC), H. Koh (GR), M. Merhi (MI), B. Rankin (CO), A. Ribeiro Mateus (IT), D. Susiandri (ST), A. Tola (SZ), A. Zaborovskiy (EC), E. Comolet (FF).

DISCUSSION RECORD²

The Acting Chair (Mr. Furusawa):

The macroeconomic outlook for Gabon worsened significantly since the Board's approval of the first Rapid Financing Instrument (RFI) request in April, given the deteriorating global outlook and a deepening of the impact of the COVID-19 pandemic. As a result, the authorities are requesting a second RFI to address their immediate budgetary needs.

In the gray statements, Directors welcome the swift measures by the authorities to limit the spread of the virus and mitigate the pandemic's social and economic impact. Directors also emphasize the need to ensure that disbursed funds are used in a well-targeted, cost-effective, and transparent manner. Given uncertainties, Directors call for contingency planning and emphasize the need for a credible medium-term debt management strategy amid rising debt vulnerabilities. Directors also note that, once the crisis abates, it will be important to undertake growth-friendly fiscal consolidation and structural reforms to achieve strong and inclusive growth.

The staff representative from the African Department (Mr. Loko):

We have already responded to several technical questions. I would like to focus my answers today on three policy issues, but before that, allow me to provide a few updates on the current COVID-19 situation in Gabon.

As of today, there have been 7,352 confirmed COVID-19 cases and 49 deaths. Since the approval of the first RFI in April, the authorities have taken steps to boost healthcare, including creating the field COVID-19 testing laboratory, capable of making more than 10,000 tests a day at full capacity. They have also assisted 50 testing centers throughout the country and purchased equipment and materials, such as ambulances, surgical masks, and ventilators.

Gabon has tested almost 75,000 people, about 4 percent of the population. The authorities are also helping the most vulnerable through a food bank, safe public transportation for essential workers, and the payment of electricity and water bills for the poor. Unfortunately, their support to businesses has been relatively slow.

So far, 172 small and medium enterprises, mainly in the catering, hotel and private education sectors, have benefitted from government support to keep their employees, estimated at about 5,600 (about 6 percent of total

² Edited for clarity.

employment).

On policy issues, a few Directors asked questions about fiscal risks related to the state-owned enterprises (SOEs). The issue of fiscal risks related to SOEs was raised and discussed with the authorities at the time of the last Article IV in December 2009.

Following the staff's recommendations, the authorities have taken some steps in strengthening the monitoring and oversight of SOEs, including the publication of a list of public entities with the 2020 budget law and the creation of a monitoring unit in charge of SOEs within the Department of Budget.

The COVID-19 pandemic has slowed down the implementation of reforms and has likely deteriorated the financial institution of several SOEs, further increasing their fiscal risks.

The Fiscal Department's mission is programmed this fiscal year to help assess fiscal risks and identify mitigation measures with the authorities. At the same time, an African Regional Technical Assistance Center (AFRITAC) technical assistance mission will help assess data quality and evaluate a public sector balance sheet. Extending the scope of the budget and fiscal reporting beyond the central government will allow a better view of the financial situation of the SOEs and will be a big step forward to bringing more transparency on Gabon's public debt data.

Second, several Directors asked questions about debt sustainability. Debt is assessed to be sustainable, although debt dynamics have deteriorated since the first RFI. Under the baseline scenario, the public debt will rise to 75 percent of GDP in 2020 due to three main factors: lower growth, high fiscal deficit and financing needs, and the addition of recently audited domestic arrears.

Public debt is projected to decline to 60 percent of GDP in 2025. Having said that, debt service and financing needs in the near term are high, which will lead to liquidity pressures and reduce fiscal space for development needs. Therefore, the authorities' commitment to pursue a strong growth-friendly fiscal consolidation is key. Most crisis-related spending and tax relief introduced in 2020 should be rolled back as soon as possible, and decisive actions will be needed to further increase domestic revenue and the efficiency of spending.

To put public debt on a friendly downward path, the authorities should also give priority to semi-concessional loans and should design and implement a credible medium-term debt management strategy, which could also include debt reprofiling.

Finally, one of the Directors suggested that an upper credit tranche (UCT) quality program would have been more appropriate after the first RFI and asked why a UCT-quality program was not explored earlier in the aftermath of the crisis. We agree that a UCT-quality Fund-supported program would help address the challenges faced by Gabon. However, it was not possible to conclude the final review under the Extended Fund Facility (EFF) before it expired in June 2020 or to put in place a new program on a timely basis while Gabon faced urgent balance of payments needs, mostly due to the COVID-19 pandemic. The authorities have expressed their interest in entering into a new UCT-quality arrangement, but it will take more time.

Ms. Levonian:

We have issued a gray statement, so I will limit myself to some brief comments.

First, we welcome the authorities' response to the pandemic. The authorities are rightfully focused on strengthening the health system, protecting the most vulnerable, and supporting the private sector, including small business. We also welcome the authorities' commitment to continue improving governance, including the use of pandemic-related resources.

Second, looking forward, we encourage the authorities to refocus efforts on growth-friendly fiscal consolidation, once the crisis abates. In this respect, we welcome the commitment highlighted in Mr. Raghani's buff statement to request a successor IMF program. A Fund program would provide a helpful framework to support macroeconomic stability, debt sustainability, and achieve higher and more inclusive growth.

Finally, as was released in a report yesterday, Gabon currently has official bilateral arrears to Canada. I understand these arrears will be cleared imminently. And, as staff indicated, I can confirm that Canada does not object to Gabon's RFI request under the Fund's policy on non-tolerance of arrears to official creditors.

Mr. Etkes:

We issued a joint gray statement with Mr. Psalidopoulos and Ms. Mateus, and we supported the decision.

I would like to revisit the issue of the oil production, GDP, and revenues. We asked about this issue in our gray statement. According to the staff's earlier replies in April, Gabon's break-even price is \$30 per barrel. The real budget assumed that the oil price would be around \$30 per barrel, which means that the oil value-added and the oil tax revenues are likely to be very

small. The staff assumes now that the price will be around \$42. According to our understanding, it means that the revenues and the value-added are likely to be much larger. We were a bit surprised that the staff claims that their assumption is more pessimistic than the authorities' assumption.

Finally, this is my last Board discussion before returning to Israel. I am happy that it deals with a developing country. Developing countries may need the Fund's advice more than countries like the U.S., which has an army of highly qualified economists. We could provide developing countries more services and advice than developed economies. I wish the Board members to continue serving the membership in developing and developed economies alike.

Mr. Shenai:

We issued a comprehensive gray statement in support of the authorities' request, so I can be brief this afternoon.

First, we think the staff's agreed-upon approach to Gabon makes sense, given the crisis. In the short run, the authorities need to do whatever it takes to ensure a strong public health response to the crisis, and the second RFI should help. In the long term, the authorities rightly identified the need to push for significant reforms. And in terms of future Fund engagement, I associate myself with the comments made by Mr. Fachada, Mr. Heo, Mr. Inderbinen, Mr. Chikada, and Ms. Levonian today on the need for a strong upper-credit tranche successor program.

Indeed, the shock underscores the urgency of completing the unfinished business of Gabon's previous EFF arrangement in setting the country on a more sustainable, less hydrocarbon-dependent path, anchored by a strong and growth-friendly fiscal adjustment.

We would expect the successor program to include strong macro-fiscal reforms to improve public investment and project selection, non-oil revenue mobilization, phasing out tax exemptions, cleaning up the public wage bill, limiting subsidies to SOEs, and enhancing public financial management.

We would also be interested in the staff's assessment about the suitability of the current exchange rate arrangement for Gabon. In this context, we would welcome an assessment of the exchange rate and whether increased flexibility would be helpful for CEMAC in the next CEMAC review.

Second, we appreciated the staff's assessment of the implementation of the foreign exchange regulation, and we are pleased to hear that the regulation has not caused unnecessary delays in the current account transactions. At the same time, however, our authorities continue to hear concerns from oil

companies about uneven implementation and poor communication from the Bank of Central African States (BEAC). We urge the staff and the national authorities to continue to work with BEAC to strike a good balance between enhancing external buffers and preserving the business climate. Regular communication and close engagement with the World Bank-appointed advisors on this matter would be quite helpful.

Ms. Alzamel:

Like other Directors, we support the authorities' request for a purchase under the RFI to meet the increasing external and financing needs.

We welcome the commitments made by the new government to maintain macroeconomic stability and support the region's external stability over the medium-term. We also share the staff's view that the authorities should rely on concessional borrowing to close the remaining gap.

Finally, we commend the authorities for the progress made in tax reforms and other domestic arrears. We also encourage them to continue undertaking structural reforms and governance measures.

Ms. Mannathoko:

We issued a gray statement supporting the request, so I will make brief remarks. We had a question in our gray statement, where we noted that the COVID-19 resources devoted to supporting businesses have delays in being spent. While we appreciate the collaboration among the authorities and CEMAC, Central African Banking Commission (COBAC), and others to define the access modalities for support via the banking sector, we were wondering if there are ways to enhance it. In this regard, we have a question on the use of digital and fintech solutions, as these can really ramp up the effectiveness of reaching informal micro-enterprises. Could the staff elaborate on it, in the context of Gabon?

In closing, we just want to wish Mr. Etkes well. We are sorry to see him go. We wanted to thank him for his remarks on the importance of strong analytical work, especially for the sub-Saharan African economies in this current difficult and very unpredictable environment. The world is changing; strong advice and analytical support is becoming more and more critical.

The staff representative from the African Department (Mr. Loko):

There was a question about oil revenue affecting the oil price in Gabon. As we said, at the time of the last Article IV in December, the authorities are expecting the technical assistance (TA) from the IMF to help them work better on the oil revenue projections in Gabon. The TA mission has

not taken place yet because of the current situation, but they still hope that the TA mission will take place in the coming months to help them deal with the oil revenue projections.

For the macro-framework for 2020, the authorities' assumption was that the oil production will decline by 4.5 percent, compared to 2019, because of weaker and unstable developments, but that assumption held before they signed the agreement with the OPEC that they are going to reduce oil production by almost 20-21 percent.

The authorities' revised budget only accounts for a decline in oil production by 4.5 percent, when the staff's baseline assumes that they will abide by the OPEC Plus agreement and curb production by 21 percent. Although oil prices are high, the volume effect dominates and then leads to lower oil revenue for 2020.

On digitalization, so far, we have been working with the authorities and the South African Reserve Bank (SARB) that has been providing TA, mostly in terms of strengthening revenue administration, customs, and taxes to make sure that they can launch the e-Tax and be able to collect more oil-based revenue.

In terms of the banking system, we are not aware of any significant work in terms of its digitalization, but the authorities recognize that digitalization can help a lot, in terms of fiscal consolidation, increasing domestic revenue, and also improving the efficiency of spending.

Mr. Raghani:

I would like to thank Directors and management for their support to Gabon's request for a purchase under the RFI. I also wish to thank staff for the report and responses to the questions raised by Directors. I greatly appreciate the latter for a lot of useful comments and recommendations, which will be faithfully communicated to the authorities.

I note Directors' recognition that this second RFI purchase is justified, given the protracted impact of the pandemic and the impact of lower oil prices on the population and the economy of Gabon. I would welcome the agreement that a relaxation of fiscal policies is appropriate to accommodate higher COVID-19-related spending and to support the most vulnerable.

The authorities expect that the Fund's support will continue to catalyze the additional resources needed to close the financing gap. They are also hopeful to conclude their negotiations on a debt reprofiling to help bridge the gap. I would like to stress again the authorities' readiness to take additional

measures if the Fund resources fall short of expectations and to resume a growth-friendly fiscal consolidation, once the crisis abates.

In the meantime, the authorities will continue to strengthen their policy response and ensure transparency in the crisis-related spending. I have noted Directors' concern about the slow implementation of initiatives to support the private sector. As the staff indicated, there has been some improvement on this front in recent weeks.

Directors also expressed some reservation regarding the debt dynamics. The authorities are mindful of the need to contain higher risks to debt sustainability. To this end, they continue to closely oversee SOEs and pursue a program debt management policy. They will also continue to improve public financial management to avoid new arrears and pursue the clearance of domestic arrears to support the private sector and help reduce vulnerabilities to the banking system.

Let me also state that the authorities remain committed to preserving macroeconomic stability and supporting CEMAC's extended position, while sustaining the recovery over the medium-term. They will pursue their economic diversification agenda towards higher, more sustained, and more inclusive growth, possibly with the support of the Fund in the context of a new arrangement, as also recommended by many Directors.

Before concluding, my Gabonese authorities would like to thank the Canadian authorities for their understanding, in the context of the external arrears matter that inadvertently came up in the run-up to this meeting. They really appreciate their non-objection to the holding of this meeting, as immediate action was taken swiftly.

Like Ms. Mannathoko, I want also to thank Mr. Etkes for his comments today on the significance of Fund support to developing countries and wish him all the best in his future endeavors.

To conclude, I wish to reiterate my appreciation for the Fund's continued support to Gabon in this difficult period. I thank the mission chief, Mr. Boileau Loko, and his team for their close and productive engagement with the authorities and the outstanding work done.

The Acting Chair (Mr. Furusawa) adjourned the discussion.

ANNEX

- Gray Statements
- Staff's Responses to Executive Director's Technical Questions
- Constituency Codes

BUFF/ED/20/136

July 29, 2020

**Statement by Mr. Raghani and Mr. Nguema-Affane on Gabon
Executive Board Meeting 20/86
July 31, 2020**

Our Gabonese authorities would like to thank the Executive Board, Management and Staff for their support to Gabon during this difficult time brought about by the COVID-19 pandemic. The emergency assistance provided under the Rapid Financing Instrument (RFI) in April 2020 in response to the pandemic has been critical to address mitigation costs and catalyze additional external funding to cover the balance of payments and budget needs. Since then, Gabon's economic outlook has deteriorated, and financing needs have risen. In this context, the authorities are requesting an additional purchase under the RFI in the amount of equivalent to SDR 108 million (50 percent of Gabon's quota) to close part of the additional financing gap.

Impact of COVID-19

Since the approval of the first request for emergency assistance in April 2022 (RFI-1), the number of new infections has considerably increased. As of July 26, 2020, there are about 7,000 confirmed cases and 49 deaths due to COVID-19, with a strong concentration of cases in Libreville, the capital. Nevertheless, as the epidemiologic situation is improving, the containment measures are being gradually eased. The lockdown has been lifted, the state of emergency terminated, and some travel restrictions relaxed. Preliminary information shows a large impact of the pandemic and containment measures on the economy in the first half of 2020. Exports of commodities fell sharply reflecting lower external demand, and the activity in the non-oil sector declined due to restrictions on movement and gatherings. The fiscal situation worsened due to substantial revenue losses and spending costs to mitigate the economic impact of the pandemic.

Outlook

Looking forward, Gabon's near-term outlook has worsened. Compliance with the April 2020 OPEC agreement (a 21-percent oil production for Gabon) and the deterioration of the global economic outlook will affect exports and financial inflows and depress fiscal revenues amid higher mitigation costs and tighter global financing conditions. As a result, the authorities

project a sharper economic contraction (-2.7 percent against a projection of -0.4 percent in April 2020) and an urgent external financing and fiscal gap of about FCFA 215 billion (after accounting for the RFI-1 purchase). The requested Fund financial support would help to cover part of the additional financing needs. External financing and fiscal needs could arise in the event of a protracted COVID-19 outbreak.

Policy response to the pandemic

The authorities are implementing health and economic policies to cope with the pandemic and limit its effects on the economy, as committed in their April 2020 Letter of Intent. The health system's response capacity has been increased, with notably the set-up of a new testing laboratory. In addition, support to households affected by the pandemic has been provided through a food distribution program, assistance with payments of electricity bills and rentals, and various tax deferrals and other relief measures as well as the setup of a solidarity fund. The authorities have also developed a comprehensive economic recovery plan and put in place an economic recovery fund to support firms affected by the pandemic. The regional central bank (BEAC) and the regional banking supervision body (COBAC) have also enhanced their support to the CEMAC region notably with a relaxation of BEAC refinancing criteria and the adoption of a restrictive policy for dividend distribution.

Preserving the health of the Gabonese people and limit the impact of the pandemic on the businesses and the most vulnerable population remain the main priorities going forward. The Parliament adopted a revised budget law for 2020 reflecting a more accommodative fiscal stance to address those priorities, and the updated macroeconomic framework. The reallocation of resources towards health-related and social spending has reduced fiscal space for capital spending which has been revised downwards. The non-oil fiscal deficit in 2020 will widen to 9 percent from 5.7 percent of non-oil GDP at the time of the RFI-1. A strict fiscal discipline will be pursued, and additional measures will be implemented to ensure fiscal and debt sustainability, should fiscal revenues and financing fall short of expectations.

Transparency in the use of emergency resources

The authorities remain committed to a transparent use of all emergency funds received to respond to the pandemic, including the purchases under the RFI. Transparency will be ensured through a separate reporting mechanism for COVID-19-related expenditures, and the publication of all procurement contracts, their beneficiaries, and the ex post reports of delivery. Audits of all expenditures and procurement tenders linked to the pandemic will be carried out by a reputable firm and the reports will be published in a timely manner. Quarterly budget execution reporting will continue with specific information on pandemic-related expenses.

Medium-term policies

A new government headed by a woman for the first time in Gabon's history has been formed on July 16, 2020. It has reiterated the authorities' commitment to maintaining macroeconomic stability and supporting regional external stability over the medium-term. The authorities have continued to implement the structural benchmarks under the Extended Fund Facility (EFF) arrangement, and have notably completed the audit of domestic arrears by an external auditor, which resulted in an upward revision of the public debt figure at end-2019 from 58.8 percent to 62.4 percent of GDP. Also, oil and mining contracts have been transmitted to the regional central bank (BEAC), as required under the new foreign exchange regulation.

Once the crisis eases, the authorities intend to unwind temporary emerging measures and implement a growth-friendly fiscal consolidation consistent with their economic recovery plan. The oversight of public enterprises and public debt management will continue to be strengthened to contain fiscal risks and preserve debt sustainability. The authorities will pursue structural reforms to enhance public financial management, improve competitiveness and achieve higher and inclusive growth. They also reiterate their interest in a successor arrangement, following the expiration of the EFF arrangement in June 2020, to support their new medium-term economic and financial program under preparation.

Conclusion

The Gabonese authorities are requesting a second purchase under the RFI to meet increasing external and fiscal financing needs arising from the protracted impact of the pandemic on the country. They remain committed to ensure that the emergency resources are used for their intended purpose. Public debt continues to be sustainable and the capacity to repay the Fund remain adequate. Directors' approval of the authorities' request will be appreciated.

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The contents of this document are preliminary and subject to change.

GRAY/20/2785

July 29, 2020

**Statement by Mr. Villar and Mr. Cartagena Guardado on Gabon
(Preliminary)
Executive Board Meeting 20/86
July 31, 2020**

We thank staff for the comprehensive report and Messrs. Raghani and Nguema-Affane for their insightful buff statement.

We support Gabon’s request to purchase 50 percent of quota under the Rapid Financing Instrument (RFI) to cover the urgent Balance of Payments needs stemming from the impact of COVID-19. We note from the report that Gabon’s capacity to repay its obligations is adequate, although subject to risks. Periodic monitoring by the Fund and close dialogue with the Gabonese’s authorities will be instrumental, particularly when the pandemic subsides. In this regard, we welcome the authorities’ willingness to undertake negotiations for a possible new IMF-supported arrangement that will be key to achieve long-term macroeconomic and fiscal stability.

We praise authorities for the early public health response and economic measures to contain the pandemic and protect the population. Gabon has been harmed by two exogenous unexpected economic shocks, one being the COVID-19 outbreak, the other the sharp fall in oil prices produced by lower demand. We concur that the RFI will help finance an important gap in the balance of payments created by these shocks while being catalytic for additional support from other international financial institutions. Given worsened economic prospects as the pandemic evolved since the last RFI, the contention measures, protection of the most vulnerable households and support to business remain key challenges for the country. We note with concern that COVID-19 remains high in relative terms within the sub-Saharan Africa.

We praise the authorities for their commitment to fiscal stability and macroeconomic reforms once the pandemic subsides. Boosting competitiveness and growth and reducing poverty will remain key challenges. In the fiscal front, bringing the debt-to-GDP ratio to a downward trajectory and reducing the fiscal deficit will be instrumental for fiscal stability once the crisis abates. Although Gabon’s banking system showed adequate solvency and liquidity at the start of the pandemic, it is important for authorities to remain vigilant of the evolution of the asset quality especially during this challenging time.

We welcome the authorities' commitment to the effective and transparent use of COVID-19-related funds. Periodic reports, third-party audits and publication of contracts are good signals of this commitment to transparency and accountability. We also welcome the authorities' commitment to undertake the best fiscal management practices with the support of IMF technical assistance.

We wish the authorities and the people of Gabon well in these challenging circumstances.

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GRAY/20/2788

July 29, 2020

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

1. We thank the staff for the detailed report and Mr. Raghani and Mr. Nguema-Affane for the useful buff. The containment measures have worsened the economic condition of Gabon and weakened its macroeconomic stability. To manage the deteriorating external and fiscal position, the authorities have approached for additional emergency financing. Considering the uncertainty in the outlook and urgency of the situation, we support the staff proposal under Rapid Financing Instrument (RFI).
2. The economic outlook has deteriorated due to the containment measures and sharp fall in oil and other commodity prices. Economy is expected to contract by 2.7 percent in 2020 compared to the estimated contraction of 0.4 percent in April '20. Fall in oil prices combined with expected cut in production would affect the export revenue from oil. Similarly, exports of wood and manganese are expected to decline, and the adverse effects would spread through the domestic sector. The downside risk includes prolonged impact of COVID-19 on the global economy and depressed commodity process.
3. The fiscal strains would be exacerbated due to fall in revenue from oil and increased expenditure to manage socio-economic adversity arising due to the pandemic. Expenditure is expected to increase to 20.9 percent compared to the original estimate of 17.5 percent in 2020. Fiscal deficit is expected to be 2.9 percent of GDP in contrast to the surplus of 1.4 percent originally expected.
4. Current account deficit is expected to widen to 9.5 percent, one percent more than April '20 estimates. This is due to the combined effect of fall in oil exports and rise in imports of capital and pandemic related imports. Authorities had eased policy rates by 25 basis points to 3.25 percent to enhance liquidity. In addition, easing the norms for refinancing of collaterals and capital conservation buffers is expected to enhance liquidity. Given the dynamic situation, we encourage the authorities to closely monitor the banks and financial sector.

5. Public debt is expected to increase to 74.7 percent of GDP compared to the projection of 55.6 percent made during Article IV review before the pandemic. Fiscal risks affecting state owned enterprises need to be assessed for appropriate mitigation measures. *Can the staff provide an assessment of additional debt and fiscal burden due to state owned enterprises, its impact on the debt sustainability and the mitigation measures undertaken to address them?*

6. We encourage the authorities to continue undertaking structural reforms and governance measures. The progress made in tax reforms and audit of domestic arrears are steps in the right direction. Finally, we wish the authorities the best in their efforts.

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GRAY/20/2789

July 29, 2020

**Statement by Mr. Kaya, Mr. Benk, and Mr. Zaborovskiy on Gabon
(Preliminary)
Executive Board Meeting 20/86
July 31, 2020**

We thank staff for the concise report, and the informative update on the impact of the COVID-19 shock on the Central African Economic and Monetary Community (CEMAC) member countries. We also thank Messrs. Raghani and Nguema-Affane for their helpful Buff statement. The impact of the COVID-19 pandemic on the Gabonese economy appears to be worse than staff's initial projections made three months ago. GDP is now expected to contract by 2.7 percent this year, and the fiscal and current account deficits are widening to 5.4 and 9.5 percent of GDP, respectively. Nevertheless, the estimated financing gap remains broadly unchanged, reflecting higher foreign and domestic financing, as well as support from development partners and international financial organizations. Unfortunately, the conclusion of the last review of the Extended Fund Facility (EFF) Arrangement seems to be impossible due to pandemic-related constraints. De facto, a purchase under the Rapid Financing Instrument in the amount of SDR 108 million (50 percent of quota) has been proposed to substitute the last EFF tranche. In view of the extraordinary challenges caused by the COVID-19 outbreak and the authorities' commitments to advance reforms put in motion under the EFF arrangement, **we support the proposed decision.**

The deteriorating fiscal position and growing risks to debt sustainability should be addressed. We note staff's assessment that fiscal accommodation is appropriate to cushion the economic fallout from the pandemic; however, the fiscal deficit is growing rapidly and downside risks persist. Debt dynamics have worsened and risks to debt sustainability have increased significantly. These developments put a premium on a well-targeted and cost-effective fiscal policy, and a realistic medium-term fiscal framework to anchor the debt trajectory. We encourage the authorities to strengthen debt management and fiscal risk monitoring, as well as to resume the growth-friendly fiscal consolidation and public financial management reforms as conditions permit. Contingency planning remains critical to preserve macroeconomic stability, should downside risks materialize.

The authorities' strong intention to request a new Fund-supported program is welcome.

Continued structural reforms, underpinned by a credible macroeconomic policy mix, are needed to ensure a sustainable economic recovery in the post-COVID-19 period. *Could staff comment on the near-term capacity development plans for Gabon?* We welcome the reform priorities outlined in the Buff statement, and encourage the Gabonese authorities to press ahead with strengthening the governance and anti-corruption framework.

The policy dialogue with CEMAC regional institutions should aid the Fund's policy recommendations.

We note that the regional central bank (BEAC) and the regional banking supervision body (COBAC) have stepped up their efforts to support the CEMAC region. Adequate liquidity provisions should go hand-in-hand with preserving financial stability. We are looking forward to the updated regional policy assurances from these institutions to underpin the ongoing and future IMF-supported programs with the CEMAC countries.

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GRAY/20/2799

July 29, 2020

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

We thank staff for their well-written staff report and Mr. Raghani and Mr. Nguema-Affane for their detailed Buff. **We support the authorities' request for an RFI (50 percent of quota) to help address urgent financing needs due to COVID-19.** We offer the below comments for emphasis.

We welcome the authorities' accommodation of crisis-related expenditure and commitment to growth-friendly fiscal consolidation due to rising debt risks. We strongly welcome the authorities' recent completion of their domestic arrears audit, which can strengthen fiscal transparency. We note staff's finding that that debt service is expected to average 75 percent from 2020-2025, leaving little room for priority public expenditure. Should downside risks materialize, additional fiscal contingencies will be necessary, including through delaying planned foreign-financed capital expenditures and limiting potential contingent and SOE liabilities. We agree with staff that it will be important to create a fleshed out contingency plan and expect such a plan to be a part of a potential upper-credit tranche (UCT) arrangement. *Can staff provide an update on the scope of additional specific measures and potential fiscal savings that can be achieved in the medium term?*

Rebuilding regional buffers is critical to safeguarding external sustainability given the uncertain oil price outlook, though regional and national authorities should take steps to minimize negative spillovers from the foreign exchange regulation to the business climate. We understand that BEAC has received relevant copies of oil contracts from all countries and is now assessing compliance with the foreign exchange law. However, we continue to hear concerns from private sector companies on uneven implementation and poor communication from BEAC. We were pleased to read in the CEMAC update that the World Bank financed advisors are now in place and urge BEAC to make effective use of these advisors in its engagement with representatives from extractive industries. *Is the BEAC's plan to implement fully the foreign exchange regulation by end-2020 realistic given COVID-19 related logistical challenges? Further, have delays in getting approval for foreign exchange had an impact on current account transactions?*

We commend the authorities' commitments to transparency and improved governance. The separate reporting mechanism and independent third-party audits, among other agreed upon

measures, are positive signals. We welcome the authorities' commitment to apply to the Extractive Industries Transparency Initiative as well.

Financial sector risks should be monitored. Near-term financial system buffers appear adequate, but COVID-19 related NPLs could be significant, possibly challenging banking sector health given banks' use of capital conservation buffers during this crisis. We recognize staff's finding that NPLs will likely rise and appreciate the CEMAC-level update on the region's banking sector health. *Can staff provide an update on the evolution of financial soundness specifically in Gabon in 2020 given COVID-related pressures?*

Going forward, continued engagement with the Fund through a UCT quality program will be helpful, though success will ultimately depend on implementation and strong ownership. We note that Gabon's macro-structural vulnerabilities preceded COVID-19 and that the authorities' performance under the prior program was mixed. Safeguarding macroeconomic stability will require a strong focus on diversifying the economy away from hydrocarbons and creating additional room for private sector involvement in the economy. Absent such a bold reform package, it is likely that Gabon will continue to face protracted stresses given the challenging oil price environment and tighter global financial conditions for frontier markets. Also, we would appreciate continued regular staff updates on implementation of the foreign exchange regulation in CEMAC country reports, in addition to coverage in regional surveillance.

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GRAY/20/2802

July 30, 2020

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

We thank staff for the concise report and Mr. Raghani and Mr. Nguema-Affane for the informative Buff statement. The analysis of the COVID-19 impacts on the CEMAC region as a whole and on individual member's policy responses is timely and useful. Since the approval of the first disbursement under the Rapid Financing Instrument (RFI) last April, the Gabonese economy continues to be hardly hit by the pandemic. We support the authorities' request for an additional purchase under the RFI and would like to limit our comments to the following for emphasis.

Timely implementation of the announced policy measures is key to supporting firms and households to cope with the crisis. We note with concern that the resources devoted to supporting businesses have barely reached the hard-hit firms. Given that businesses mainly need urgent liquidity support, we urge the authorities to expedite the implementation of related measures to prevent the liquidity shortage from shifting to a solvency issue. A temporary relaxation in fiscal stance, as reflected in the revised fiscal budget, is appropriate. We encourage the authorities to make a contingency plan in case the spending needs increase. The measures taken by the regional central bank and the regulators are also welcome. We encourage the authorities, together with regional financial regulators, to finalize the access modalities for firms to get financing support with guarantees provided by the State in a timely manner.

The authorities' commitment to pursuing fiscal consolidation and advancing structural reforms in the medium term would contribute to sustainable and inclusive growth. The public debt in Gabon remains sustainable, but risks to debt unsustainability have significantly increased. In this regard, a credible fiscal consolidation plan and a prudent borrowing strategy over the medium term are important. We take good note that the authorities are making progress in structural reforms during this challenging time, including the completion

of the domestic arrears audit, among others. We believe a successor arrangement would support the authorities' ambitious policy agenda and facilitate the economic recovery.

With these remarks, we wish the authorities every success in their policy endeavors.

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GRAY/20/2804

July 30, 2020

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

We thank staff for the well-written report and Mr. Raghani and Mr. Nguema-Affane for their insightful Buff statement.

The Gabonese authorities have been appropriately responding to the crisis, but growth prospects and external as well as fiscal positions have further deteriorated since the approval of the first RFI request in April 2020 due to weaker external demand and a more pronounced impact of containment measures. It is unfortunate that the uncertain outlook has made it difficult to complete a final review under the Extended Arrangement. Given the urgent balance of payment needs, **we support the authorities' request for additional financial assistance from the Fund under RFI in the amount of SDR 108 million (50 percent of quota), bringing the total purchase under RFI to 100 percent of quota.** As evident in RFI-1, we believe that RFI-2 will further catalyze donor support to meet their remaining financing needs.

We welcome the progress made in implementing COVID-related measures to limit the spread of the pandemic. Strengthening healthcare facilities, protecting the most vulnerable households and supporting the private sector should remain as the near-term policy priorities. In this regard, we note that resources devoted to support businesses have barely been spent and encourage the authorities to ensure timely response while ensuring that support is well-targeted. We note that all measures related to the COVID-19 will bring the overall fiscal deficit for 2020 to -5.4 percent of GDP. We are concerned that the revised budget could be overestimated due to overly ambitious oil revenue assumptions, which in turn could further widen the fiscal deficit by 0.7 percent of GDP. *We welcome staff's comment on the authorities' anticipative responses to deal with this fiscal risk, given limited domestic financing.* As the fiscal risk arising from SOE needs to be closely monitored, we welcome the Fund's plan to provide TA on this area. We also agree with staff on the importance of

contingency planning in light of the considerable uncertainty and downside risks, including the optimistic expectation of a normalization of the global economic outlook later in 2020.

While public debt continues to be deemed sustainable, we note with caution that the risk to debt sustainability has significantly increased since RFI-1. Public debt is expected to rise to 75 percent of GDP in 2020 and 2021, breaching the high-risk benchmark, before declining gradually to 60.2 percent of GDP in 2025. In order to mitigate near-term risk of debt sustainability, the Gabonese authorities should secure financing assurance in 2020-21, including through debt reprofiling and a credible medium-term debt strategy. In addition, we also agree that the authorities should borrow on concessional terms to fill their remaining financing needs. Going forward, growth-friendly fiscal consolidation would be warranted to preserve debt sustainability once the crisis abates. *Could staff elaborate how a new IMF-supported arrangement would help the authorities navigate the challenges ahead and the status of discussion with the authorities in this regard?*

Finally, it is important to ensure that the crisis-related spending is used in a transparent and well-targeted manner. We commend the authorities' commitment and efforts to strengthen transparency on the use of COVID-19 emergency resources, including through on-line publication of all related procurement contracts, quarterly report on the spending of emergency-funds, and third-party audit of these spending.

With these remarks, we wish the authorities success in their efforts in coping with these challenging circumstances.

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GRAY/20/2805

July 30, 2020

**Statement by Mr. Fachada and Ms. Mohammed 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 insightful statement. Gabon continues to be severely impacted by the dual shock of the COVID-19 outbreak and the sharp fall in oil prices. This has resulted in weak exports and reduced economic activity, which have deteriorated the country's external and fiscal positions and weighed heavily on its growth prospects. Against this backdrop, we support Gabon's request for a second disbursement under the Rapid Financing Instrument (RFI) in the amount of 50 percent of quota to address its urgent balance of payments needs. We welcome the authorities' commitment to continue improving governance to ensure a proper use of public funds, including COVID-19-related resources.

Fiscal policy has adequately focused on cushioning the impact from the COVID-19 shock. The immediate fiscal response to address the healthcare needs and protect the most vulnerable, whilst supporting small businesses has been appropriate. Nevertheless, the pandemic and associated weaker economic activity have increase fiscal risks of state-owned enterprises, given their deteriorating financial situation. Therefore, closer monitoring is advised to prevent further worsening of their fiscal position. Similarly, strengthened oversight of the banking system is recommended to ensure financial sector stability and circumvent implications of increases in non-performing loans on banks' capital.

We note that despite the second purchase under the RFI, a moderate financing gap remains. We hope that the RFI would catalyze additional financing from development partners, given the limited scope of domestic financing. The development of a contingency plan, including reprioritization of capital and non-priority expenditure merits consideration, in case the shock is more severe and prolonged than anticipated.

We take note that Gabon's capacity to repay the Fund remains adequate, and public debt remains sustainable despite being subjected to mounting risks. This underscores the

importance of an effective medium-term debt strategy and resumption of fiscal consolidation going forward. Advancing the implementation of public financial management reforms is also essential to reduce fiscal risks, prevent arrears accumulation and enhance transparency. To this end, we welcome the authorities' intention to resume growth-friendly fiscal consolidation once the crisis abates and the development of a reform program. That said, we are encouraged that the authorities intend to commit to a new IMF arrangement to support their medium-term agenda and resume fiscal consolidation.

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GRAY/20/2806

July 30, 2020

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

We thank staff for the well-written report and Mr. Raghani and Mr. Nguema-Affane for their informative Buff statement. We note that the economic outlook has further deteriorated since the time of RCF-1 due to weaker external demand and a more pronounced impact of containment measures. This development has made it difficult to complete the final review of the EFF, and the authorities are instead seeking additional emergency financing to address the urgent balance of payments need. Based on staff's assessment that Gabon meets all eligibility criteria, **we support the request for disbursement in an amount equivalent to SDR 108 million (50 percent of quota) under the RFI.**

We welcome the authorities' efforts to strengthen healthcare facilities and protect the most vulnerable households, but we are concerned about the deteriorating debt dynamics. The fiscal loosening is necessary given the challenging situation, but we encourage the authorities to prepare contingency plans and identify additional financing sources in case the crisis drags on for longer than expected. We also encourage the authorities to ring-fence against fallouts from SOEs. The DSA shows that public debt is now projected to breach the high-risk benchmark, which highlights the need to bring public debt to a safe level once the crisis abates. In this context, we appreciate the authorities' commitment to request a new Fund arrangement to help preserve macroeconomic stability and debt sustainability.

We encourage the authorities to closely monitor risks to the financial sector. Despite a healthy starting point, the economic deterioration could quickly spill over to banks' balance sheets through a rapid increase in nonperforming loans. Against this background, we are concerned that resources devoted to support businesses have barely been spent. *Could staff provide information about recent developments in bankruptcy proceedings and the potential impact on banking sector solvency?*

Fund emergency support should play an important catalytic role. In this regard, we take positive note of the contributions from the African Development Bank and the World Bank since RFI-1. We note that a small financing gap remains (Text Table 4), and it could grow if the outlook continues to deteriorate. We therefore encourage the authorities to continue their efforts to mobilize concessional financing.

We welcome the commitments in the Letter of Intent towards the effective and transparent use of public funds, including funds from the RFI. *Could staff comment on concrete governance developments since RFI-1? Have procurement contracts been published online on a timely basis, and what is the scale of spending that has been captured by the safeguards?*

We wish the authorities every success in these challenging times.

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GRAY/20/2808

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.

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GRAY/20/2809

July 30, 2020

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

We thank staff for their clear and concise staff report and Mr. Raghani and Mr. Nguema-Affane for their useful Buff statement. **We support Gabon's request for financial support from the IMF through a purchase under the Rapid Financing Instrument** to help address urgent balance of payment needs due to a further deterioration in growth prospects and worsened external and fiscal positions. We would like to emphasize a few points.

- **Choice of instrument** – We note staff's view that the RFI is the appropriate instrument to support Gabon given the urgency of the balance of payments need and uncertainty about the outlook. While we can agree to the RFI request, we can see advantages to a UCT program aimed at stabilization and involving greater commitment to strong policies. Given the remaining financing gap and elevated fiscal risks, we encourage further close engagement on contingency plans including the potential need for a successor UCT program.
- **Fiscal contingency planning** – The revised budget appropriately focusses on meeting healthcare needs and supporting the private sector. Nonetheless, given the near-term fiscal risks highlighted by staff, we welcome the authorities' assurance that strict fiscal discipline will be pursued, and should fiscal revenues and financing fall short of expectations, additional measures will be implemented to ensure fiscal and debt sustainability.
- **Medium-term debt sustainability** – Risks to debt sustainability are assessed to have increased since April and we note that debt remains vulnerable as both debt held by non-resident and foreign currency debt breach the upper assessment benchmarks. Hence, we share staff's view that while debt reprofiling will assist in the near term, a medium-term strategy and prudent fiscal policies are required to mitigate debt sustainability risk going forward.
- **Governance** – The authorities' commitment to reforms to strengthen governance, transparency and accountability is welcome. We welcome the commitments made to

safeguard the quality of emergency spending and the progress made in implementing these since the first RFI request.

- **Regional considerations** – We welcome the preparation of an informal background note on emergency assistance and the impact of the COVID-19 shock in CEMAC countries. As external sector stability in the CEMAC region requires a common strategy and commitments from all CEMAC members, this is useful context for Gabon’s request.

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GRAY/20/2810

July 30, 2020

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

1. We thank staff for their concise report on Gabon and Mr. Raghani and Mr. Nguema-Affane for their informative Buff statement. We support the authorities' request for an additional purchase under the Rapid Financing Instrument (RFI) in the amount of 50 percent of quota (SDR 108 million). The Fund's support will help address urgent financing needs associated with the impact of the COVID-19 pandemic. We hope that the approval of the facility will help catalyze additional concessional financing from donors and other multilateral institutions.
2. Since the approval of the first RFI request in April, Gabon's growth outlook has deteriorated and financing needs have risen. Real GDP is now expected to contract by 2.7 percent in 2020. The fiscal position is expected to significantly worsen relative to the projections in the first RFI due to the impact of weaker economic activity on non-oil revenue and the increase in the COVID-19-related spending. The non-oil-deficit is expected to widen to about 9 percent of non-oil GDP. The near-term outlook remains subject to high uncertainty and downside risks.
3. We note the recent relaxation of the containment measures in Gabon against the backdrop of limited social safety nets and rising pressures on small enterprises. At the same time, the number of COVID-19 cases has continued to rise steadily in the country, with an average of 63.4 new daily cases per 1,000,000 people in June. Under these circumstances, the authorities are implementing their strategy to achieve full testing coverage for the population.
4. We welcome the authorities' efforts and the important progress achieved in the implementation of the COVID-19-related measures. The revised budget is rightly focused on addressing the immediate healthcare needs and supporting the most affected households and

economic sectors. The BEAC has taken additional measures to support credit to the economy and the market for government securities. We welcome the authorities' plans to resume fiscal consolidation as the crisis abates. *Could staff elaborate on the fiscal risks stemming from the SOEs sector?*

5. We welcome the authorities' efforts to advance structural reforms envisaged in the recent EFF arrangement. The completion of the audit of domestic arrears was an important step aimed at supporting economic activity and investment. We also note that oil and mining contracts have been transmitted to the BEAC in line with the new foreign exchange regulation. *Could staff elaborate on the key objectives of this requirement and potential implications for the oil and mining sectors?*

6. We welcome the authorities' efforts to enhance monitoring of resources deployed for emergency response, including the publication of all procurement contracts, their beneficiaries, and the ex post reports of delivery.

7. According to the updated DSA, Gabon's debt remains sustainable despite the worsening of debt dynamics. Debt levels and gross financing needs are expected to be higher in 2020 than projected in April. We agree with staff that a credible medium-term debt management strategy will be crucial for managing large financing risks. *Could staff provide additional information about the debt composition and debt service payments to multilateral, bilateral, and commercial creditors in 2020-22? In particular, we are interested in more granular details on the situation with commercial creditors and how the Fund's financing compares with commercial debt repayments.*

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GRAY/20/2811

July 30, 2020

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

We thank staff for the well-written report and Mr. Raghani and Mr. Nguema-Affane for the helpful Buff statement. Since we are in broad agreement with staff's analysis and policy recommendations, we would like to limit our remarks to the following issues.

1. We support the authorities' request for a purchase under the Rapid Financing Instrument (RFI) to meet the increasing external and fiscal financing needs. Since the approval of the first RFI request in April, the impact of containment measures and weaker external demand have worsened economic conditions significantly. In this regard, we commend the authorities for the steps taken to strengthen health infrastructure, protect the most vulnerable, and support SMEs. Here, we note that there have been implementation challenges with support to SMEs and we appreciate the authorities' recent efforts in this area. *Here, we would appreciate an update from staff on the progress of discussions with CEMAC, COBAC and commercial banks to define access modalities to support business.* We expect that the additional support by the Fund through the RFI should catalyze additional financing from development partners, and importantly provide a bridge to a new Fund supported arrangement that would support necessary reforms. Further, we take note of staff's assessment that Gabon's capacity to repay the Fund is adequate, but subject to risks.

2. We welcome the authorities' continued commitment to pursuing the planned medium-term growth-friendly fiscal consolidation. We note that Gabon's public debt remains sustainable, nevertheless, debt dynamics have worsened and risks to debt sustainability have increased. In this context, efforts to strengthen debt management, monitoring public enterprises and enhance public financial management reforms are important to contain fiscal risks and preserve debt sustainability, once the crisis eases. We encourage the Fund to continue to provide technical assistance in support of the authorities' efforts in this area. We encourage the authorities and staff to work closely to develop a

contingency plan, should significant downside risks materialize. *Staff comments on progress of contingency planning and available options are welcome.*

3. Lastly, we welcome the authorities' commitment to transparent use of Fund emergency support, including a separate reporting mechanism for COVID-19-related expenditures and commissioning an independent third-party audit. We also welcome that the priority recommendations from the 2017 safeguards assessment of the BEAC have been implemented.

With these remarks, we wish the authorities all the success in their future endeavors.

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GRAY/20/2812

July 30, 2020

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

We thank staff for the report and Mr. Raghani and Mr. Nguema-Affane for their useful Buff statement.

The infection rate since the first request for emergency assistance (RFI-1) has increased. Still, improvements in the margin have resulted in a gradual easing of containment measures, but it could also risk a protracted COVID-19 outbreak. The near-term outlook has worsened, and as a result, projections for 2020 have been revised downward to -2.7 percent, from -0.4 percent at the time of RFI-1, and the current account deficit has widened further to 9.5 percent of GDP. Even accounting for the RFI-1 purchase, Gabon presents urgent financing needs, external and fiscal. **Against this backdrop, we support the authorities' request for a purchase under the Rapid Financing Instrument (RFI) of 50 percent of quota (SDR 108 million) to be used as budget support to help address urgent balance-of-payment (BoP) needs and mitigate the risk of disorderly fiscal or BoP adjustment.** We note that this additional request will bring the total purchases under the RFI to 100 percent of quota in 2020.

In addition to the pandemic, the Gabonese economy was hit by a sharp fall in commodity prices, adding to the fiscal gap. The policy response has been commendable given the constraints. We take positive note of improved response capacity of the health system and praise the authorities for the continued commitment to implementing health and economic policies, as stated in the LOI. Amid mounting pressures on the fiscal accounts, we commend that fiscal discipline remains a priority. The monitoring of fiscal risks includes those arising from the weak financial situation of State-Owned Enterprises (SOEs). The banking system appears to be healthy, but solvency risks could arise as NPL ratios and provisioning requirements increase.

We caution against too early implementations of a strategy of fiscal consolidation that could backfire on Gabon's recovery. It should be state-dependent, conditional on the crisis abating. Nevertheless, measures like avoiding the creation of new arrears are desirable, given that the risk to debt sustainability has increased substantially as debt dynamics have worsened. In addition, the increasing NPL trend mentioned earlier also underscores the importance of this initiative.

We take positive note of staff's assessment that Gabon's capacity to repay the Fund is adequate under the policies committed by the authorities in the LOI. Yet, it should be noted that it is not absent of risks. We welcome that the BEAC has implemented the priority recommendations

from the 2017 safeguard assessment, and we note that it recently issued its FY 2019 audited financial statements in full compliance with IFRS. We also note that the authorities have indicated their strong intention to request a new Fund-supported program to help preserve macroeconomic stability and debt sustainability and achieve higher and more inclusive growth.

We welcome the authorities' commitment to the effective and transparent use of public funds, including the use of funds to respond to the COVID-19 pandemic and the funds from the RFI.

Likewise, we commend the commitment to provide a separate reporting mechanism for COVID-19 expenditures, including the on-line publication of all related procurement contracts, in addition to conducting an independent, third-party audit of all government expenditures and procurement tenders linked to the pandemic. Continued publication of budget execution reports, enhancement of fiscal management practices, and strengthening the capacity to identify and mitigate fiscal risks are areas that need to be prioritized and in the same way the Fund has provided TA in the past, it should consider further engagement to pave the way to a successful outcome, including risks arising from SOEs.

With these comments, we wish Gabon and its people success in their policy endeavors during this challenging time.

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GRAY/20/2813

July 30, 2020

**Joint Statement by Mr. De Lannoy, Mr. Psalidopoulos, Mr. Etkes, and Ms. Mateus on
Gabon
(Preliminary)
Executive Board Meeting 20/86
July 31, 2020**

We thank staff for the concise paper and Mr. Raghani and Mr. Nguema-Affane for the illuminating Buff statement. Gabon requested a second purchase under the RFI equivalent to 50 percent of quota amidst the COVID-19 pandemic. The resources will help cover medical and social expenditures, as well as fiscal deficit. As staff assesses that Gabon has the capacity to repay the Fund and its debt is sustainable despite the risks, we support the authorities' request.

- **This is Gabon's second request for a purchase under the RFI** equivalent to 50 percent of quota after Gabon's earlier purchase in April 2020. The previous request for an RFI was made just before the temporary increase of access to 100 percent of quota. We believe that members should not be discouraged from being early applicants for Fund financing or programs, particularly during periods of uncertainty as we are experiencing the last months. In light of deteriorating economic conditions and significant Balance of Payment needs, this second RFI justifiably provides the country the remaining amount up to the limit of emergency funding. Moving forward, we welcome the authorities' interest in a subsequent IMF arrangement that can help pave the way for macroeconomic stability and more inclusive growth.
- **We welcome the revision of the finance law as part of the policy response for the COVID-19 crisis.** We are somewhat surprised by staff's comment that oil revenue assumptions in the revised finance law are somewhat ambitious, given the conservative price assumed. The finance law assumes an oil price of USD 30 per barrel and a 4.5% decline in production, while staff assumes a price of USD 41 per barrel and a drop of 21% in production. Yet, given a breakeven price of USD 30 (as staff assumed in reply # 9 to our question in April), the oil value added and revenues in the finance law (\$30 per barrel) are expected to be small. *Can staff provide a projection of the expected oil value-*

added and revenues given the breakeven price in these two scenarios? Can staff comment on how the 4.5% decline in production compares to the OPEC agreement?

- **We welcome the additional financing following the Fund's initial RFI, but note the large GFN and the risks for debt sustainability given overall uncertainty.** Part of the external financing is not yet covered, and as staff suggested a fiscal contingency plan is warranted. The fiscal gaps and high level of debt highlights the importance of efficient and transparent fiscal spending. We welcome the authorities' reiterated commitment on transparency and proper use of COVID-19 resources, and note the recently published TA report on PIMA, which was delivered in 2019 (FO/Dis/20/124). *We appreciate if staff could indicate whether the PIMA-TA advice is useful and utilized during the current conditions.*

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GRAY/20/2814

July 30, 2020

**Joint Statement by Mr. Buisse, Mr. Ronicle, Mr. Rozan, Ms. Andreicut, and Mr. Comolet
on Gabon
(Preliminary)
Executive Board Meeting 20/86
July 31, 2020**

We thank staff for the excellent report and Mr. Raghani and Mr. Nguema-Affane for the insightful Buff statement.

We note that Gabon's macroeconomic situation has weakened since the appraisal of the first Rapid Financing Instrument (RFI) due to deteriorating growth prospects and worsening external and fiscal positions leading to urgent financing needs. Though the current environment has made the last review of the 3 year EFF difficult to complete, Gabon has made important progress on external and domestic arrears and on the transparency of oil revenues. In this context, and with the adoption of a revised finance law in coordination with the Fund, **we strongly support the authorities' request for a purchase of 50% of quota under the RFI to be used as budget support.**

In light of the cancellation of the EFF, and the importance of Gabon continuing over time its much-needed macroeconomic and structural reforms, including for the CEMAC's external sustainability, we also welcome the strong commitment of the Gabonese authorities to requesting a successor arrangement. This will require ownership to ensure a strong engagement with the Fund, in terms of advice, capacity development and financial assistance. While progress has been made to advance reforms under the previous EFF, the future UCT engagement will require further efforts to advance the diversification of the economy and develop private sector.

The crisis is severely affecting the fiscal position of Gabon. In the context of emergency spending designed to address the pandemic induced crisis, it is critical that the authorities ensure transparency in the use of funds. We very much welcome their commitments in this regard, in particular plans to report and audit relevant expenditure and tenders, and publish procurement contracts. *Could staff elaborate on the implementation of the authorities' commitments for the RFI-1?* We note the underutilization of resources devoted to support businesses and would welcome staff comments.

In terms of structural reforms, we welcome the advancement of structural reforms as part of the previous EFF, and in particular the completion of the audit of the 2015–17 domestic arrears, and a subsequent strategy to settle the stock of verified arrears, and the transmission of all oil and mining contracts and licenses of private companies with the Gabonese government to the BEAC in June 2020. The steps taken on tax and custom exemptions and on the reinforcement of the Treasury Single Account are also noted.

The 2020 revised finance law (RFL) projects the non-oil-deficit to widen to about 9% of non-oil GDP. Nonetheless, we agree with staff that downside risks abound for the fiscal account, whether it is due to lower oil revenues than in the RFL or to fiscal risks affecting State Owned Enterprises (SOEs) for instance. *Concerning the latter, how does staff cooperate with other IFIs to improve the quality of targeted transfers? Could staff elaborate on potential additional financing needs in a downside scenario and on the potential terms for the AFREXIM reprofiling?* The absence of any arrears with external creditors is key and authorities should ensure that they remain current on their debt obligations.

Finally, according to the updated DSA, while public debt remains sustainable, debt dynamics have worsened and risks to debt sustainability have increased significantly. We note that staff points out both short term risks pertaining to financing gaps in 2020 and 2021, and medium-term debt management issues with large needs going forward. *Do the authorities have a strategy to address the debt vulnerabilities highlighted by staff to improve the liquidity and the solvency of the country?*

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GRAY/20/2816

July 30, 2020

**Joint Statement by Mr. Inderbinen, Mr. Chikada, Ms. Kikuchi, and Mr. Tola on Gabon
(Preliminary)
Executive Board Meeting 20/86
July 31, 2020**

We thank staff for the well-written report and Mr. Raghani and Mr. Nguema-Affane for their informative Buff statement.

We support Gabon's request for a purchase under the RFI in the amount of SDR 108 million. Gabon is continuing to experience an urgent balance of payment need as a result of the COVID-19 pandemic and the collapse of oil prices. According to staff, the fiscal response of the authorities to contain the outbreak has been appropriate. However, the deterioration of growth prospects and the decline in oil revenues due to commitments under the OPEC among other factors have led to a wider non-oil deficit. The additional fiscal gap ensuing from these developments needs to be financed by the second RFI and external concessional borrowing. The authorities should use the catalytic impact of the RFI to mobilize additional financing from development partners.

While the priority understandably lies with short term measures to mitigate the impact of the COVID-19 crisis, the authorities should not lose sight of medium-term macroeconomic stability. The Risk Assessment Matrix indicates a real possibility of a less dynamic recovery and a more protracted financing gap. The reprioritization of fiscal policy towards crisis-related spending in the short term is justified. However, this will mean further delays in executing capital expenditures, which will have repercussions on future growth. In this context, it is important that the authorities increase their efforts to implement reforms that address structural weaknesses and facilitate economic diversification. In this regard, we welcome the authorities' commitment to request a new UCT-program very soon. The audit of domestic arrears and the transmission of oil and mining contracts to the BEAC are encouraging steps, but more efforts should be made to address fiscal risks from SOEs.

A strong commitment by the authorities to pursue fiscal consolidation once the impact of the pandemic subsides is necessary to put public debt on a downward path. Staff

assesses the public debt as sustainable, but risks have increased significantly. Debt service is expected to average 75 percent of revenues from 2020-2025. This points to the importance of a credible medium-term debt management strategy in addition to strong commitment to fiscal consolidation and to structural reforms that will boost growth. Debt reprofiling will help attenuate immediate sustainability concerns. *When would staff expect the details of the preliminary reprofiling arrangement with AFREXIM to be available?* We note that the DSA is based on assumptions of higher debt issuance on the regional market in the medium term and residual financing needs in 2021-25 being met with commercial external debt. While it is true that EMBI spreads have retreated compared to early April, they remain high. *How do the assumed issuance amounts compare to past issuances?*

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GRAY/20/2817

July 30, 2020

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

We thank staff for the report and Mr. Raghani and Mr. Nguema-Affane for their Buff statement. The COVID-19 crisis continues to weigh on the Gabonese economy and the near-term outlook, particularly with regard to the external environment. We take positive note of the authorities' steps to combat the pandemic and to alleviate socio-economic hardships and we welcome the accommodation of additional health and social spending. At the same time, we wonder about the take-up of economic support to businesses. *Could staff share some preliminary insights from the analysis conducted by the government-created one-stop shop for businesses applying for such support?*

The macroeconomic imbalances will substantially burden the country's recovery if not addressed adequately by the authorities. It is against this background that we also consider continued Fund engagement in the form of emergency assistance (in contrast to an UCT-quality adjustment program) to be associated with substantial risks and urge the authorities to maintain their intention to request a new Fund program. Just like debt sustainability and the capacity to repay the Fund are tied to adherence to sound and stability-oriented macro policies, a return to growth depends on comprehensive structural reforms tackling weak governance and improving the business climate. A possible Fund-supported program with UCT-quality conditionality could facilitate a coherent policy geared towards inclusive growth. Against this background, and in view of the eased containment measures we remain to be fully convinced about a second purchase under the RFI and *would invite staff to lay out the underlying reasoning why an UCT-quality program has not been explored early in the aftermath of the first request for emergency finance. Staff comments would be welcome.*

That said, we go along with Gabon's request for a purchase under the Rapid Financing Instrument (RFI) of 50 percent of quota (SDR 108 million) but express our considerable

concerns about Gabon’s capacity to repay with peak annual obligations of more than 20 percent of reserves and debt sustainability. While acknowledging staff’s assessment of Gabon’s public debt to remain sustainable, worsened debt dynamics and increased vulnerabilities are a cause for serious concern. In order to address the resulting risks, post-crisis fiscal consolidation geared to stability and growth is imperative, including sustainable revenue generation outside the oil sector. In addition, considerable efforts are needed to enhance PFM capacities, for example with regard to debt management, clearing and avoiding payment arrears, and reforms and control of state-owned enterprises. The combined effect of changes in the stock of guarantees, asset changes, and recognition of arrears seems to have been an important driver of the unfavourable public debt trajectory, hence warranting remedial actions going forward.

We note with considerable concern the large annual obligations towards the Fund in 2023 to 2025 and staff’s assessment of vulnerabilities to the capacity to repay. In this context, we reiterate our general concerns about disbursing large amounts of Fund credit under emergency facilities when stronger safeguards are warranted not least in order to ensure adequate capacity to repay. Moreover, we reiterate our concerns about a growing cluster risk vis-à-vis the CEMAC region.

Finally, good financial governance of Fund resources should guide us also during extraordinary times like these, where pressures to act swiftly are high. In this context, we underscore the utmost importance of ensuring proper use of public resources, which necessitates appropriate and effective control mechanisms. We expect the authorities and staff to work towards ensuring that disbursed funds are used in a well-targeted, cost-effective and transparent manner.

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GRAY/20/2818

July 30, 2020

**Statement by Mr. El Qorchi and Mr. Ahmed on Gabon
(Preliminary)
Executive Board Meeting 20/86
July 31, 2020**

We thank staff for a well-written report and Mr. Raghani and Mr. Nguema-Affane for their helpful Buff statement. We broadly concur with the staff appraisal.

We support the request of Gabon for a further purchase under the RFI equivalent to 50 percent of the quota, amounting to SDR 108 million, which would bring total purchases under the RFI to 100 percent of quota. The urgency of the balance of payments need precludes the design and implementation of a UCT-quality program, as it was not possible to conduct the final review under Gabon's EFF-supported program, which expired on June 18, 2020. Although debt levels and gross financing needs are expected to be higher in 2020 than projected at the time of first RFI, owing to the more pronounced impact of the COVID-19 shock, Gabon's debt is assessed to remain sustainable and its capacity to repay the Fund is adequate under the policies committed by the authorities in the LOI.

We note that the COVID-19 pandemic and sharp fall in commodity prices have had a more severe impact on the Gabonese economy than envisaged at the time of first RFI request in April. These shocks have slowed economic activity, put pressure on the fiscal and external positions, and undermined hard-won gains over recent years. Given uncertainties about the magnitude and duration and impact of the shocks, a further weakening of the macroeconomic outlook has warranted additional financing and policy adjustment.

We welcome the authorities' intention expressed in their LOI to request a new Fund-supported program to help preserve macroeconomic stability and debt sustainability and lay the ground for higher and more inclusive growth. We emphasize maintaining the reform momentum of recent years to achieve growth-friendly revenue-based consolidation, improve debt management, enhance governance, and improve the business climate, which could be supported by a new IMF-supported arrangement.

With this, we wish the authorities success in their endeavors.

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GRAY/20/2819

July 30, 2020

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

We thank staff for the reports and Mr. Raghani and Mr. Nguema-Affane for the helpful Buff statement. The sharp fall in commodity prices has added another challenge to the Gabonese economy that still grapples with the fallout from the COVID-19 crisis. Fiscal balances are expected to deteriorate further as a result of continued decline in oil and non-oil revenues and higher pandemic-related spending, while the near-term outlook remains subject to high uncertainty and downside risk. We support Gabon's request for a second Rapid Financing Instrument since the start of the pandemic to help meet its urgent balance of payments needs.

We find the authorities' strategy of strengthening healthcare facilities, protecting the most vulnerable households, and supporting the private sector appropriate in the immediate term. We note in this regard the 2020 Revised Finance Law (RFL) which focuses on limiting the macro-financial and social impact of the COVID-19 pandemic. Both oil and non-oil revenues have been revised downward compared to the last RFI, while health-related spending and social spending were increased. Capital expenditures, both domestically and foreign-financed, were also revised downward due to project implementation delays and reprioritization towards more crisis-related spending. As a result, the fiscal deficit and financing gap have widened.

Public debt remains sustainable but risks to debt sustainability have increased significantly. We welcome the authorities' commitment to fiscal stability. However, it is important to preserve fiscal and debt sustainability even while the crisis is still unfolding given the high uncertainty around the outlook. This could include developing a contingency plan in which additional non-priority spending is postponed while health and social protection spending is prioritized. Moreover, debt reprofiling would be crucial to help avert immediate risks to debt sustainability.

Public financial management reforms are needed to reduce fiscal risks, prevent arrears accumulation, and enhance transparency. We, therefore, welcome the authorities' recent completion of their domestic arrears audit, which strengthens fiscal transparency.

Finally, we welcome the authorities' interest in a possible new financing arrangement with the Fund to support their medium-term agenda and resume fiscal consolidation.

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GRAY/20/2822

July 30, 2020

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

We thank staff for their informative report and Mr. Raghani and Mr. Nguema-Affane for their helpful buff statement.

As the COVID-19 pandemic continues to create significant health challenges, further strain Gabon's economy, and hamper its growth prospects, **we support the country's request for further assistance under the Rapid Financing Instrument (RFI) equivalent to 50 percent of its quota (SDR 108 million)**. As indicated in the supplement paper, Gabon currently has official bilateral arrears to Canada. We understand these arrears will be cleared imminently and can confirm that Canada does not object to Gabon's RFI request under the Fund's policy on Non-Toleration of Arrears to Official Creditors.

We welcome the ongoing response to contain pandemic impacts. Steps to strengthen healthcare, protect vulnerable households, and support the private sector remain priorities; with smooth coordination across government agencies and development partners essential for successful response implementation. It is positive that large portions of resources allocated to sanitary and social measures are being used effectively, however, it is unfortunate that utilization of resources devoted to business support has lagged behind. Accelerating access to business support by creating a single forum to analyze assistance requests is an encouraging development, and we urge authorities to continue making progress in this area.

A strong commitment to transparency and governance reform remain essential.

Assurances to safeguard COVID-19 related spending, like quarterly reporting on emergency expenditure, are appropriate. Longer term, we encourage continued efforts to enhance the oversight and accountability frameworks for all public enterprises, proceed with the submission of Gabon's application to the Extractive Industries Transparency Initiative, and advance ongoing PFM reforms.

Safeguarding debt sustainability is a key priority. Although public debt remains sustainable, the pandemic continues to increase vulnerability. Finalizing the refinancing of

the 2020 debt service with AFREXIM would help ease pressures. Securing commitments to cover remaining financing gaps is also important for mitigating immediate debt sustainability risks, while a credible medium-term debt management strategy is needed moving forward. As the crisis subsides, authorities should resume fiscal consolidation efforts (particularly revenue mobilization) and continue avoiding the accumulation of arrears to improve investor sentiment. *Could staff please provide an update on possible assurances to fill the remaining financing gaps?*

While it is unfortunate that Gabon's final EFF review could not be completed, we welcome the authorities' intention to request a successor program to help preserve macroeconomic stability, strengthen debt sustainability, and achieve more inclusive growth.

Gabon

Staff's Responses to Technical Questions Posed by Executive Directors in Advance of

EBM/20/86, July 31, 2020

Staff's responses to technical and factual questions are below. Broader policy questions in the areas of SOEs, debt sustainability, and program modalities will be addressed in staff's oral intervention at the Board meeting.

Fiscal Policy

1. *Can staff provide an update on the scope of additional specific measures and potential fiscal savings that can be achieved in the medium term?*

The Gabonese authorities have started to implement reforms over the past few years which could generate additional savings (or additional revenues) in the medium term:

- Tax exemption: with IMF support, the authorities have started identifying and reporting on all tax and customs exemption, including an evaluation on their fiscal impact. A dedicated annex was included in FY2020's budget documentation. This critical first step could lead to future actions to limit the scope and impact of tax exemptions (currently amounting 4% of GDP) and secure future revenues.
- Wage bill: the authorities have initiated actions aiming to cleaning up the payroll file in order to remove ghost workers.
- Transfer and subsidies: efforts have been made to better reflect transfers to public entities in the budget along with stronger monitoring capacities at the Ministry of Finance level. Further actions could help limit subsidies to SOEs.
- Public investments: a PIMA evaluation conducted in 2019 showed very weak public investment management processes and tools, which lead to structural inefficiencies and poor results in terms of infrastructure delivery. With IMF support, the authorities have started to elaborate a consolidated public investment plan (PIP), which provides the opportunity to review the current portfolio and focus on mature and strategic projects.

2. *We welcome staff's comment on the authorities' anticipative responses to deal with this fiscal risk, given limited domestic financing.*

- In case of lower-than-expected revenues, the authorities could consider additional expenditure reprioritization in areas that will least affect the mitigation of the

outbreak, such as further postponement of non-priority goods and services or capital expenditure, while protecting expenditure that benefits the most vulnerable

- Several corrective/contingency mechanisms are included in the FY2020 budget law to adjust public spending to revenue and to prevent fiscal slippages. In addition, ongoing efforts to strengthen cash management mechanisms and tools will also help.
- The authorities are also committed to requesting, when on-site missions resume, an assessment of the existing fiscal risks based on the Fiscal Transparency Evaluation (FTE) principles developed by the IMF

3. *Staff comments on progress of contingency planning and available options are welcome. (See answer above)*

4. *Can staff provide a projection of the expected oil value added and revenues given the breakeven price in these two scenarios? Can staff comment on how the 4.5% decline in production compares to the OPEC agreement?*

The revised budget assumes that lower external demand will lead to a 4.5 percent decline in oil production. However, the authorities have now committed to respect the OPEC agreement and cut oil production by 21 percent. They recognized that despite higher international oil prices (\$ 40 per barrel as of end-June) than assumed in the budget (\$30 per barrel), oil revenue will be lower and create an additional financing gap of about 0.7 percent of GDP.

5. *We appreciate if staff could indicate whether the PIMA-TA advice is useful and utilized during the current conditions.*

The authorities concurred with PIMA findings and recommendations. Work is currently in progress to develop a Public Investment Program (PIP), which was a SB under the EFF program

6. *Could staff please provide an update on possible assurances to fill the remaining financing gaps?*

A successful reprofiling arrangement with AFREXIM (for which details should be available before end-August) would help fill remain gaps by up to FCFA 40 billion. There could also be scope for further regional market issuance with recent steps taken by the regional Central bank to ensure additional liquidity in the banking system.

Program Issues

7. *Could staff comment on the near-term capacity development plans for Gabon?*

Gabon's last Article IV of December 2019 (IMF Country Report No. 19/389) has an annex (Annex V, page 57) on the "Capacity Building and Technical Assistance Framework", which lays out the priorities in terms of capacity development going forward.

Despite notable progress, Gabon still faces weaknesses in administrative and institutional capacity and the overarching policy priorities for the country remain: (i) conducting prudent macroeconomic policies and maintaining fiscal discipline so as to preserve debt sustainability and avoid accumulation of payments arrears; (ii) increasing domestic revenue by expanding the tax base to meet growing demand for public goods and services, accommodate growing social needs, and over time substitute for uncertain donor support; (iii) increasing the efficiency of public spending; and (iv) addressing weaknesses in the banking sector to reduce risks to financial stability. Gabon also needs to strengthen its statistics to better inform policy decisions and the private sector. Finally, there is a need to continue efforts to implement public finance reforms under the Organic Law of 2014 to strengthen the credibility of the budget, allow transparent budget execution and strengthen reporting and controls. Covid-19 has not changed and if anything, strengthen those priorities.

8. *Could staff elaborate how a new IMF-supported arrangement would help the authorities navigate the challenges ahead and the status of discussion with the authorities in this regard?*

A new IMF program would help the authorities in designing a fiscal consolidation and financing strategy as well as a package of structural reforms that would allow them to gradually reduce public debt and boost inclusive and diversified growth, including through more transparency, enhanced governance and improving the business climate. The Fund's technical assistance and capacity building would also be instrumental in designing and following up on those reforms.

Regarding the status of the discussion on a new IMF-supported arrangement, as indicated in the buff, the authorities reiterate their interest in a successor arrangement to support their new medium-term economic and financial program under preparation. With the Covid-19 pandemic, efforts in recent months have been concentrated in the immediate response to the two crises hitting Gabon (oi and sanitary). The authorities have started to update their current development plan (*Plan Strategique Gabon Emergent - PSGE*) to use as a basis for discussions with IMF staff on a successor arrangement.

9. *We would invite staff to lay out the underlying reasoning why an UCT-quality program has not been explored early in the aftermath of the first request for emergency finance. Staff comments would be welcome.*

We agree that a UCT-quality Fund-supported program would help address the challenges faced by Gabon. However, it was not possible to conclude the final review under the EFF before it expired in June, or to put in place a new program on a timely basis, while Gabon

faced urgent BOP needs, owing in large part to the accelerating spread of the pandemic and its economic spillovers and heightened uncertainty. The authorities have expressed their interest in entering into a new UCT-quality arrangement, but this will take more time.

Debt Issues

10. 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.

The risks to the baseline in the staff report, particularly a more prolonged Covid-19 outbreak and lower commodity prices, could result in growth or real exchange rate shocks. Further fiscal consolidation measures and prudent debt management, including consideration of reprofiling operations, would be important contingency measures in the event adverse shocks materialize. Continued commitment to prudent policies, particularly continued avoidance of arrears, to support investor sentiment will be critical to managing elevated debt profile risks (market perception and high shares of non-resident and foreign currency debt).

11. Could staff provide additional information about the debt composition and debt service payments to multilateral, bilateral, and commercial creditors in 2020-22? In particular, we are interested in more granular details on the situation with commercial creditors and how the Fund's financing compares with commercial debt repayments.

Please find tables on the debt composition and debt service for 2020-22 below.

Gabon: Debt Service 2020-2022 (fcfa billions)¹			
	2020	2021	2022
External Public Debt	872.3	344.8	492.4
Multilateral	63.9	77.0	91.5
IMF	4.7	5.4	5.4
Bilateral	80.2	109.7	116.4
Commerical	171.3	63.4	46.3
Eurobond²	556.9	94.6	238.2

1/Based on existing debt.
2/Debt Service for Eurobonds includes FCFA 439 billion related to the refinancing operation.

Gabon: Public Debt Composition	
(fcfa billions as of end-2019)	
Total Public Debt	5774
Domestic Public Debt	1926
External Public Debt	3848
Multilateral	1321
IMF	301
Bilateral	873
Commerical	377
Eurobond	1278
Public Guranteed Debt	27

12. *Could staff elaborate on potential additional financing needs in a downside scenario and on the potential terms for the AFREXIM reprofiling?*

Details have not yet been received on the reprofiling with Afrexim. However, the authorities are confident that a significant share of the remaining payments in 2020 (approximately CFAF 40 billion in principle payments in July-Dec 2020) will be rescheduled over 2 to 3 years. There are significant uncertainties around the impact of COVID-19, and thus on potential additional financing.

13. *Do the authorities have a strategy to address the debt vulnerabilities highlighted by staff to improve the liquidity and the solvency of the country?*

As indicated in the staff report, the authorities remain committed to pursuing the planned medium-term growth-friendly fiscal consolidation (possibly in the context of a new Fund arrangement), which would contribute to safeguarding debt sustainability. Further, efforts to engage with creditors to explore reprofiling options, as is being done with AFREXIM and some other creditors could also help manage liquidity pressures. More broadly, strengthening debt management in the context of large maturities has been an ongoing objective of the authorities in recent years, and they have received technical assistance on the medium-term debt strategy from AFRITAC in 2019

14. *When would staff expect the details of the preliminary reprofiling arrangement with AFREXIM to be available?*

Details should be available before end-August according to the authorities.

15. *We note that the DSA is based on assumptions of higher debt issuance on the regional market in the medium term and residual financing needs in 2021-25 being met with commercial external debt. While it is true that EMBI spreads have retreated compared to early April, they remain high. How do the assumed issuance amounts compare to past issuances?*

The expected issuance of debt on the regional market, while higher than historical averages is feasible given the steps taken so far by the regional central bank to ensure adequate liquidity in the banking system. The assumption on regional issuance are in line with market potential. Regarding commercial external debt, assumed financing is higher at an average of 8 percent of GDP per annum compared with an average of actual disbursements of 3 percent of GDP over the last four years. However, it is important to note that (i) these residual needs could be met in part through reprofiling with commercial creditors; and (ii) the needs could also be met by more favorable semi-concessional financing, for example in the context of a UTC program. However, staff opted for a more conservative assumption of commercial financing.

Governance Issues

16. *Could staff comment on concrete governance developments since RFI-1? Have procurement contracts been published online on a timely basis, and what is the scale of spending that has been captured by the safeguards?*

Gabonese authorities have been providing information about Covid-19 expenditures to their Court of Accounts and held two briefing sessions (in May and June 2020) for the National Parliament, in which the previous Prime Minister delivered a speech detailing COVID-19-related resources and expenditures.

Regarding the reporting on expenditures, the execution of COVID-19 measures started in mid-March, and details are expected to be included in the second quarterly Budget Execution Report, which will be published in late August. Meanwhile, the authorities have shared with staff the full execution of Covid-19-related expenditures, which is reported in Text Table 3 and Annex I of the Staff Report.

Concerning the publication of contracts, the first Letter of Intent (paragraph 6) signed on April 3, 2020 and part of the RFI-1 Staff Report (IMF Country Report No. 20/109, page 33) did not indicate when precisely those contracts would start to be published. This second Letter of Intent for the RFI-2 clarifies this issue (on paragraph 6 of the current LOI on page 36 of the Staff Report) by specifying that the publication should be done within thirty days of each contract award. It is important to note that part of the equipment purchased in Gabon was done through development partners (AFD, AfDB, UNDP, WHO, and the World Bank).

Financial Sector

17. *Can staff provide an update on the evolution of financial soundness specifically in Gabon in 2020 given COVID-related pressures?*

All Gabonese banks are currently solvent and liquid. To prepare for future adverse developments, the regional supervisor COBAC has been running forward looking

quantitative impact analyses of the crisis on the banking sector. Based on current analyses, it is not expected that Gabonese banks will turn insolvent or illiquid by end 2020. Staff is also closely monitoring the implementation of impact mitigating measures, including the strategy to repay domestic arrears and the government plan to address the economic downturn.

18. *Could staff provide information about recent developments in bankruptcy proceedings and the potential impact on banking sector solvency?*

See answer to question above.

Other Issues

19. *Can the staff provide an assessment of additional debt and fiscal burden due to state owned enterprises, its impact on the debt sustainability and the mitigation measures undertaken to address them?*

Oral intervention.

20. *Concerning SOEs, how does staff cooperate with other IFIs to improve the quality of targeted transfers?*

Oral intervention

21. *Could staff elaborate on the fiscal risks stemming from the SOEs sector?*

Oral intervention

22. *Is the BEAC's plan to implement fully the foreign exchange regulation by end-2020 realistic given COVID-19 related logistical challenges? Further, have delays in getting approval for foreign exchange had an impact on current account transactions?*

Regarding the foreign exchange regulation, the BEAC is still aiming to complete consultations with oil companies by November 2020, to prepare for implementing the regulation to oil companies by end-2020. However, COVID-19 has delayed preparatory work done with the support of the consultants. The consultants are still in the process of collecting information and data from national authorities about oil companies operating in CEMAC countries, in addition to the oil contracts. Consultations with oil companies, which were planned to start in June-July, were delayed and will likely start in September-October. BEAC could hold discussions in June 2020 only with a Consulting company advising some oil companies operating in the region. The BEAC has not yet communicated to oil companies a revised plan for consultations, and how they see the process. Staff urged BEAC to do so as soon as possible.

Regarding demands for foreign exchange, the BEAC reported that capacity to processes these demands has continued to improve. As a result, delays in approving such demands and

providing foreign exchange have been reduced to a minimum of just a few days, which should not have any material impact on current account transactions.

23. *Could staff elaborate on the key objectives of the requirement of transmitting the mining contracts to the BEAC and potential implications for the oil and mining sectors?*

The key objective of this requirement was to improve the transparency of oil and mining revenues (see EBS/19/109), which should contribute to enhancing governance of the oil and mining sectors.

24. *We would appreciate an update from staff on the progress of discussions with CEMAC, COBAC and commercial banks to define access modalities to support business.*

The COBAC has authorized banks to use their capital conservation buffers and is planning to take measures to facilitate loan restructuring. At the national level, most states are working on repaying their domestic arrears, partly through securitizations, which should provide liquidity to businesses and provide space to banks to proceed with new lending. Gabon has announced such a plan at end-April aiming at supporting businesses and individuals in cooperation with banks, which is gradually being implemented.

25. *Could staff elaborate on the implementation of the authorities 'commitments for the RFI-1?*

Answer to question 16.

26. *Could staff share some preliminary insights from the analysis conducted by the government-created one-stop shop for businesses applying for such support?*

The fiscal one-stop shop was set up to facilitate the application process for the economic support and the cross-check of the fiscal situation for each firm. The authorities have published precise regulation on how the one-stop should work. As of mid-July 2020, 273 firms have applied through the digital system, of which 233 were approved for a reduction in 50 percent on the Withholding Synthetic Tax (ISL), which is a type of corporate tax applied to SMEs. With it, authorities also intend to tackle informality and attempt to regularize a number of firms. Nevertheless, the financial support so far provided is not significant. The tool innovation may be useful in the future to continue the reforms towards more digitalized fiscal authorities. Authorities also hope that over the coming months, with the system fully operationalized, more and larger companies will use the one-stop shop, increase the execution rate of this economic support.

CONSTITUENCY CODES

OEDAE

Angola, Botswana, Burundi, Eritrea, Eswatini, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, Somalia, South Africa, South Sudan, Sudan, Tanzania, Uganda, Zambia, and Zimbabwe

OEDAF

Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Republic of Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea Bissau, Madagascar, Mali, Mauritania, Mauritius, Niger, Rwanda, São Tomé & Príncipe, Senegal, Togo

OEDAG

Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay

OEDAP

Australia, Kiribati, Korea, Marshall Islands, Federated States of Micronesia, Mongolia, Nauru, New Zealand, Palau, Papua New Guinea, Samoa, Seychelles, Solomon Islands, Tuvalu, and Vanuatu

OEDBR

Brazil, Cabo Verde, Dominican Republic, Ecuador, Guyana, Haiti, Nicaragua, Panama, Suriname, Timor-Leste, and Trinidad and Tobago

OEDCC

China

OEDCE

Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Spain, and República Bolivariana de Venezuela

OEDCO

Antigua and Barbuda, The Bahamas, Barbados, Belize, Canada, Dominica, Grenada, Ireland, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines

OEDEC

Austria, Belarus, Czech Republic, Hungary, Kosovo, Slovak Republic, Slovenia, and Turkey

OEDFF

France

OEDGR

Germany

OEDIN

Bangladesh, Bhutan, India, and Sri Lanka

OEDIT

Albania, Greece, Italy, Malta, Portugal, and San Marino

OEDJA

Japan

OEDMD

Afghanistan, Algeria, Ghana, Islamic Republic of Iran, Libya, Morocco, Pakistan, and Tunisia

OEDMI

Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Maldives, Oman, Qatar, United Arab Emirates, and Yemen

OEDNE

Armenia, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Georgia, Israel, Luxembourg, Moldova, Montenegro, Netherlands, Republic of North Macedonia, Romania, and Ukraine

OEDNO

Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, and Sweden

OEDRU

Russian Federation and Syrian Arab Republic

OEDSA

Saudi Arabia

OEDST

Brunei Darussalam, Cambodia, Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Nepal, Philippines, Singapore, Thailand, Tonga, and Vietnam

OEDSZ

Azerbaijan, Kazakhstan, Kyrgyz Republic, Poland, Serbia, Switzerland, Tajikistan, Turkmenistan, and Uzbekistan

OEDUK

United Kingdom

OEDUS

United States