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February 15, 1984

To: Members of the Executive Board

From: The Acting Secretary

Subject: Gabon - Staff Report for the 1983 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1983 Article IV consultation with Gabon. A draft decision appears on page 15. This subject will be brought to the agenda for discussion on a date to be announced.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Fiator (ext. (5)8664) or Mr. Kronenberg (ext. (5)8662).

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INTERNATIONAL MONETARY FUND

GABON

Staff Report for the 1983 Article IV Consultation

Prepared by the Staff Representatives for the
1983 Consultation with Gabon

Approved by Oumar B. Makalou and S. Kanesa-Thasan

February 14, 1984

I. Introduction

The 1983 Article IV consultation discussions with Gabon were held in Libreville during the period November 13-25, 1983. The Gabonese representatives included Mr. Emmanuel Ondo-Méthogo, Advisor to the Minister of Finance, Mr. Eugène Capito, Treasurer-Paymaster General, Mr. Claude Beauregard, Financial Advisor at the Presidency, Mr. Casimir Oyé Mba, Governor of the Bank of Central African States (BEAC), Mr. Jean-Paul Léyimangoye, National Director of the BEAC, and other senior officials concerned with economic and financial matters. The staff team comprised Messrs. Edwin L. Bornemann (head), Michel G.C. Fiator, Roger P. Kronenberg, Emmanuel van der Mensbrugghe (EP), and Mrs. Irene Klotz (secretary), all from the African Department. Mr. wa Bélinga Tshishimbi, Alternate Executive Director for Gabon, participated in the policy discussions.

Gabon continues to avail itself of the transitional arrangements of Article XIV. Gabon's relations with the Fund and the World Bank are summarized in Appendix I.

II. Background

During 1980-82 the Gabonese authorities implemented a medium-term program supported by an extended arrangement with the Fund. At the conclusion of the program, Gabon emerged in a much stronger financial position, having consistently accumulated budgetary and balance of payments surpluses that exceeded the program targets. This outcome was closely linked to favorable developments in the oil sector, which benefited from a large depreciation of the French franc (to which Gabon's currency is linked), and to the cautious expenditure and reserve management policies implemented by the Government under the financial program. Gross official reserves, which were depleted at the beginning of the program, reached a record level equivalent to five months of imports at the end of the program, and outstanding debt was reduced from about 50 percent of GDP to 26 percent of GDP. Virtually all performance criteria were met under the EFF program, but no purchases were made because of the continuing improvement in Gabon's balance of payments. While developments in the petroleum

sector were favorable in financial terms, those registered in the non-petroleum sector were relatively disappointing, owing in part to depressed foreign demand for uranium, manganese, and timber, Gabon's traditional exports. Furthermore, the expected structural diversification of the economy did not progress as rapidly as expected, in part because of numerous difficulties encountered in selecting viable projects in the productive sectors and the long gestation periods required for certain major projects to come to fruition. ^{1/}

III. Recent Economic Developments

Despite a substantial increase in public investment expenditure, overall economic performance during 1983 continued to be relatively sluggish in the face of the worldwide recession and the lack of competitiveness of Gabon's small industrial sector. According to tentative staff estimates, real gross domestic output, after registering virtually no growth in 1981-82, rose by 2 percent in 1983, largely on account of the oil sector (Table 1 and Chart 1). Production of manganese ore, uranium-metal, and timber continued to be carried out well below capacity, as a result, respectively, of technological change in the steel industry abroad, reduced demand for nuclear fuel, and the recession in partner countries. The construction and public works sector, which led the boom in the 1970s, remained depressed, reflecting a large reduction in government-sponsored construction projects and cautious investment decisions in the domestic business community.

Although petroleum revenue accruing to the government budget fell from 27 percent of GDP in 1981-82 to 24 percent of GDP in 1983, government expenditure policy was highly expansionary and was dominated by outlays for the construction of the Trans-Gabon Railway, administrative equipment, and defense. The decline in petroleum revenues was largely the result of the world oil glut, but can also be partly attributed to the financial difficulties encountered by PETROGAB, the official company in charge of marketing government oil. Despite the authorities' decision to postpone a number of infrastructure projects in the face of declining oil resources during the course of 1983 total budgetary expenditure is estimated to have risen by 26 percent, or about twice the rate of increase in the preceding year. Capital expenditure, which represented 53 percent of total budgetary outlays, grew at a record pace of 43 percent. The unprecedented expansion in capital outlays was largely due to the decision to accelerate the construction of the Trans-Gabon Railway in order to meet the completion target of July 1987, and to a twofold increase in administrative equipment and defense.

The growth in current expenditure increased from 6 percent in 1982 to 11 percent in 1983. While no general salary increase had been granted

^{1/} For a detailed description of the performance under the program, see EBS/83/42 (2/24/1983), pp. 2-14.

Table 1. Gabon: Selected Economic Indicators, 1979-83

	1979	1980	1981	1982	1983 Est.
<u>GDP (at constant 1979 market prices) 1/</u>					
Total (in billions of CFA francs)	644.6	644.4	622.4	628.6	641.2
Oil sector (in percent of total)	40.5	36.8	32.8	32.9	33.0
Non-oil sector (in percent of total)	59.5	63.2	67.2	67.1	67.0
Annual real rate of growth (in percent)	-0.7	--	-3.4	1.0	2.0
Investment as percent of GDP (at current market prices)	31.5	26.7	32.2	33.7	35.9
<u>Consumer prices in Libreville</u> (Percent change; period averages)					
Low-income households	7.9	12.3	8.8	16.7	11.0
High-income households	6.6	9.7	10.1	12.0	14.0
<u>Government finance</u> (In billions of CFA francs)					
Total revenue	237.9	310.4	409.7	473.6	464.0
Oil receipts	(129.9)	(187.2)	(271.5)	(310.2)	(290.0)
Other	(108.0)	(123.2)	(138.2)	(163.4)	(174.0)
Total expenditure	205.1	245.0	315.2	360.0	453.5
Current budgetary expenditure	(130.2)	(148.9)	(179.6)	(191.0)	(212.5)
Capital budgetary expenditure	(74.9)	(96.1)	(134.6)	(169.0)	(241.0)
Overall surplus or deficit (-)	32.8	65.4	94.5	113.6	10.5
Domestic financing 2/ (as a percentage of overall surplus)	-32.9	30.3	38.1	43.3	-406.7
Foreign financing 2/ (as a percentage of overall surplus)	25.0	50.6	43.5	36.4	149.5
Overall surplus as percent of GDP	5.1	7.2	9.3	9.9	0.9
<u>Money and credit (end of period)</u> (Percent change)					
Domestic credit	7.0	7.4	-1.2	-4.6	21.3
Money plus quasi-money	8.5	24.3	15.8	13.3	18.4
<u>Balance of payments</u> (In millions of SDRs)					
Exports, f.o.b.	1,391	1,945	1,866	1,957	1,847
Imports, f.o.b.	-473	-636	-713	-655	-703
Balance on current account	133	396	342	280	24
Capital account (net) 3/	-142	-320	-246	-146	-85
Overall balance (deficit -)	-6	79	100	134	-61
(Percentage of GDP)					
Current account surplus	5.6	12.1	10.8	8.8	0.8
Balance of payments surplus	-0.2	2.4	3.2	4.2	-2.1
<u>Gross official foreign reserves</u> (In millions of SDRs)					
Total	20.7	90.1	174.8	287.6	183.3
In weeks of imports	1.7	6.7	13.9	21.3	13.0
<u>Public external debt</u> (end of period)					
External public debt	1,122.8	893.9	730.6	665.9	600.0
Government-guaranteed	74.8	73.3	72.9	127.8	120.6
Total	1,197.6	967.2	803.5	793.7	720.6
Debt service (as percent of exports of goods and service)					

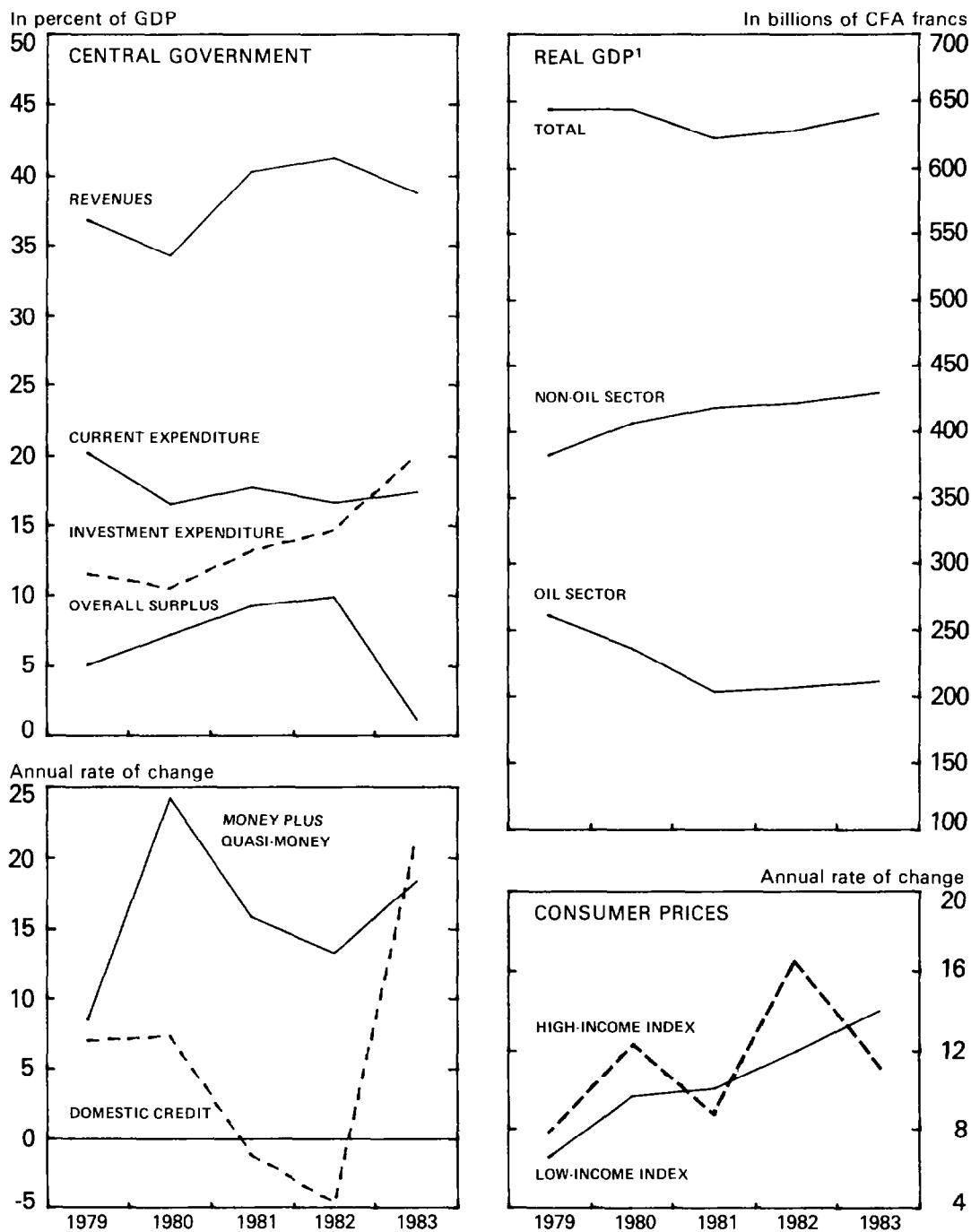
since February 1982, job reclassification within the civil service, together with a 5 percent rise in the number of employees, led to an increase of 12 percent in the wage bill. At the same time, expenditure on goods and services, which includes temporary employment, travel, and incidentals, rose by 30 percent. Subsidies and transfers, of which one third was provided to public enterprises (most importantly to OCTRA, which operates the Trans-Gabon Railway, and to Air Gabon), rose by 20 percent, compared with 15 percent in 1982. These developments in current spending represented a substantial relaxation in the expenditure policies compared with those undertaken during the program period of the extended arrangement. However, in July 1983 the Government decided to reduce and, in some cases, eliminate subsidies on certain consumer goods, but the full effect of these measures on the budget will not be felt until 1984.

As a result of these developments, the overall budgetary surplus, which averaged 10 percent of GDP during 1981-82, fell to an estimated 1 percent of GDP in 1983. When account is taken of the repayment of domestic arrears (largely reflecting unauthorized expenditure outside the budget), which had nearly then doubled during 1983, the Treasury's financing requirements rose sharply and necessitated a large-scale drawdown of government deposits of CFAF 37 billion. By the end of 1983 the Treasury's liquid assets are estimated to have fallen to about CFAF 21 billion.

Monetary developments reflected the worsening overall financial situation, with the Government continuing to draw down its deposits with the banking system. Deposits with the central bank, which increased steadily to an all-time peak of CFAF 74 billion in June 1983, fell sharply in the second half of the year. Commercial banks made little use of the central bank's rediscount facility as they were enjoying a strong liquidity position. As a result, the authorities found it difficult to contain the growth in credit to the private sector extended by these banks, and to apply effectively the statutory instruments of monetary policy at their disposal. It is estimated that money supply rose by about 20 percent during 1983, a rate nearly twice that of nominal GDP, thus contributing to an intensification of inflationary pressure.

The current account surplus of the balance of payments declined from an average of 10 percent of GDP in 1981-82 to just 1 percent in 1983, and the overall balance of payments is estimated to have shown a deficit of about CFAF 25 billion, the first deficit since 1979 (Chart 2). Reflecting a 14 percent deterioration in the terms of trade, export growth in terms of local currency slowed to an estimated 6 percent from 19 percent in 1982, while the growth in merchandise imports increased from 4 percent to an estimated 20 percent. Net service imports increased by 24 percent to CFAF 436 billion, owing mainly to continued rapid growth in operating and exploration expenditures in the petroleum sector. Total net capital flows were largely unchanged from 1982, as lower private long-term capital inflows were largely offset by increased gross government borrowing and smaller short-term capital outflows.

CHART 1 GABON SELECTED ECONOMIC AND FINANCIAL INDICATORS, 1979-83

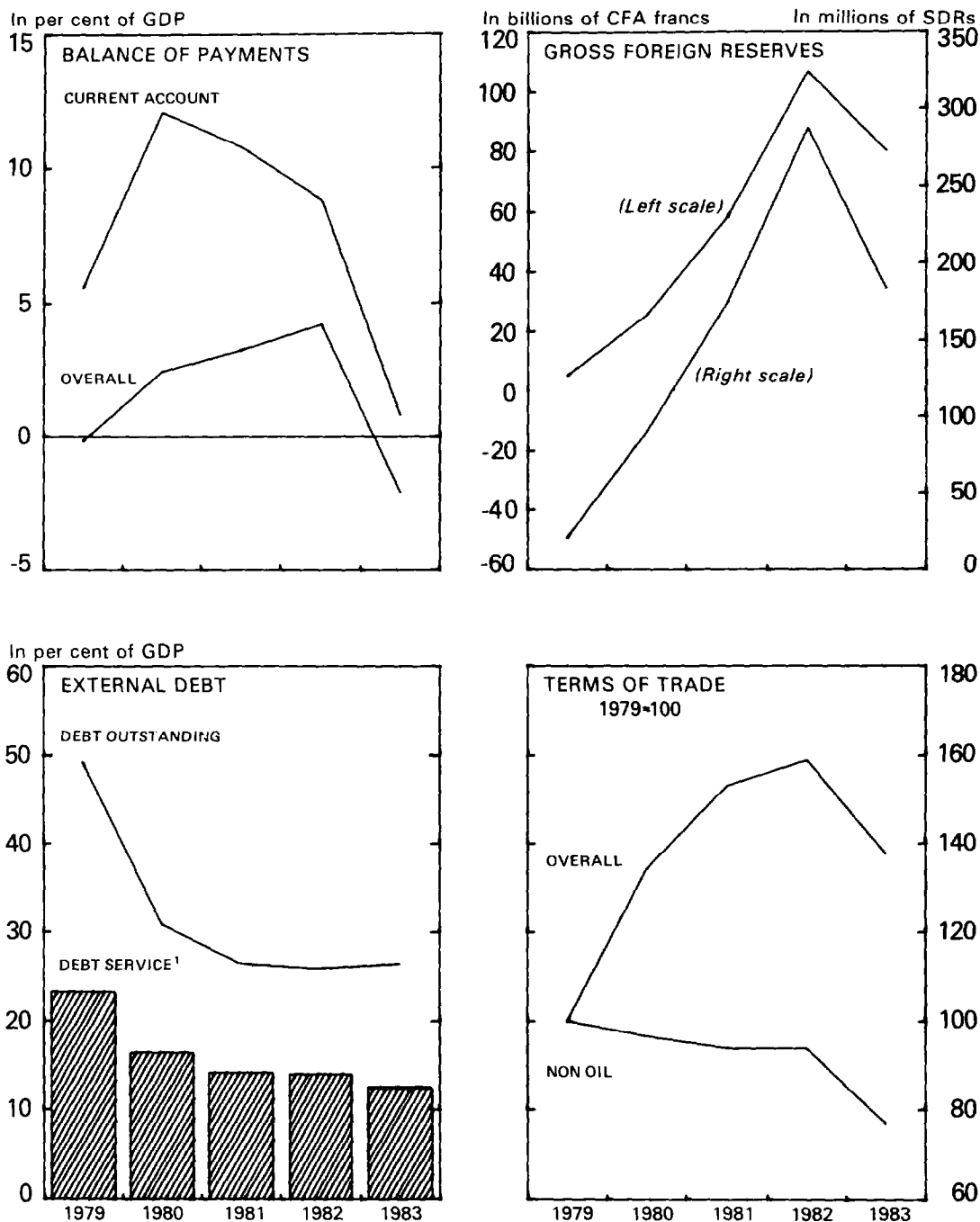


Sources: Data provided by the Gabonese authorities; and staff estimates.
¹ In 1979 prices.



CHART 2
GABON

SELECTED EXTERNAL SECTOR INDICATORS, 1979-83



Sources: Data provided by the Gabonese authorities; and staff estimates.
¹In percent of exports of goods, services, and private transfers.



The Gabonese authorities continued to follow a cautious public external borrowing policy and the ratio of total outstanding public and publicly guaranteed debt to GDP remained virtually unchanged at about 26 percent, with the debt service ratio declining from 15 percent in 1980-82 to an estimated 13 percent in 1983 (Table 2). These developments contrasted sharply with the situation prevailing at the beginning of the program under the extended arrangement, when total outstanding debt represented 50 percent of GDP and the debt service ratio stood at 23 percent of exports of goods and services and private transfers.

Gabon continues to maintain an exchange system that is free of restrictions on payments and transfers for current international transactions. Gabon's currency, the CFA franc, is pegged to the French franc, the intervention currency, at the rate of CFAF 1 = F 0.02. During 1982 and 1983 the CFA franc depreciated vis-à-vis the U.S. dollar by 17 percent and 14 percent, respectively. Against an import-weighted basket of currencies, the CFA franc depreciated much less, (by 3 percent in 1982 and by an estimated 2 percent in 1983), reflecting the large share of the French franc area in Gabon's imports. The real effective exchange rate depreciated during 1983 after a small appreciation in 1982 (Chart 3).

IV. Discussions on Prospects and Policies

Following the restoration of internal and external stability under the extended arrangement in 1980-82, the authorities sought to accelerate economic growth in 1983, mainly through a substantial increase in budgetary capital expenditure. As budgetary revenue from oil failed to grow as expected due to the developments in world petroleum markets, substantial fiscal imbalances occurred, and government deposits fell sharply. As a consequence, the authorities decided to return to less expansionary budgetary policies in the context of the 1984 budget.

Gabon's medium-term financial outlook depends mainly on the volume and price of its oil production and the Government's fiscal policy to be followed under the 1984-88 development plan, which is presently under preparation. It was against this background that the 1983 consultation discussions were conducted.

1. Policies in 1984

The restoration of fiscal balance in 1984 is expected to be greatly facilitated by the coming on stream of a major new oil field. As a consequence, oil output is projected to rise by 16 percent to 9.3 million tons, a production volume not attained since 1979. About 1.6 million tons of this total would come from the new field, which would be produced under a new production-sharing agreement. The new arrangement gives the Government a direct share in the output, as opposed to the royalties and income taxes under the traditional concession agreements. Initially, the company producing this oil will market the government oil for a fee.

Table 2. Gabon: Public External Debt and Related Transactions

	1979	1980	1981	1982	Prov. Est. 1983	Projections		
						1984	1985	1986
(In billions of CFA francs)								
Outstanding debt beginning of period	339.7	317.1	278.5	268.8	294.4	314.9	309.9	307.7
Public debt	299.4	297.3	257.4	244.4	247.0	262.2	257.8	256.3
Government guarantees	40.3	19.8	21.1	24.4	47.4	52.7	52.1	51.4
Drawings	...	45.9	24.6	47.3	56.4	68.5	72.0	72.0
Public debt	56.3	33.0	18.6	41.3	50.4	62.5	66.0	66.0
Government guarantees	...	12.9	6.0	6.0	1/ 6.0	6.0	6.0	6.0
Amortization	66.5	68.1	62.5	66.4	73.9	73.5	74.2	66.4
Public debt	64.5	66.1	59.7	61.2	70.1	66.9	67.5	60.6
Government guarantees	2.0	2.0	2.8	5.2	3.8	6.6	6.7	5.8
Interest payments	32.4	32.1	34.5	40.9	32.6	31.4	30.6	30.0
Public debt	29.5	30.7	33.0	2/ 37.2	2/ 28.1	2/ 26.7	25.9	25.4
Government guarantees	2.9	1.4	1.5	3.7	4.5	4.7	4.7	4.6
Total debt service	98.9	100.2	97.0	107.3	106.5	104.9	104.8	96.4
Public debt	94.0	96.8	92.7	98.4	98.2	93.6	93.4	86.0
Government guarantees	4.9	3.4	4.3	8.9	8.3	11.3	11.4	10.4
Adjustments 3/	...	-16.4	28.2	44.7	38.0	--	--	--
Public debt	6.1	-6.8	28.1	22.5	34.9	--	--	--
Government guarantees	...	-9.6	0.1	22.2	1/ 3.1	--	--	--
Outstanding debt end of period	317.1	278.5	268.8	294.4	314.9	309.9	307.7	313.3
Public debt	297.3	257.4	244.4	247.0	262.2	257.8	256.3	261.7
Government guarantees	19.8	21.1	24.4	47.4	1/ 52.7	52.1	51.4	51.6
Memorandum items:								
Outstanding debt end of period (in millions SDRs)	1,197.6	967.2	803.5	793.7	720.6	709.2	704.1	717.0
Public debt	1,222.8	893.9	730.6	665.9	600.0	590.0	586.5	598.9
Government guarantees	74.8	73.3	72.9	127.8	120.6	119.2	117.6	118.1
Ratio of external debt to GDP (in percent)	49.2	30.8	26.4	25.6	26.3	22.7	22.4	20.7
Ratio of debt service to exports of goods, services, and private transfers (in percent)	23.1	16.4	14.1	13.9	13.0	11.3	11.5	10.9

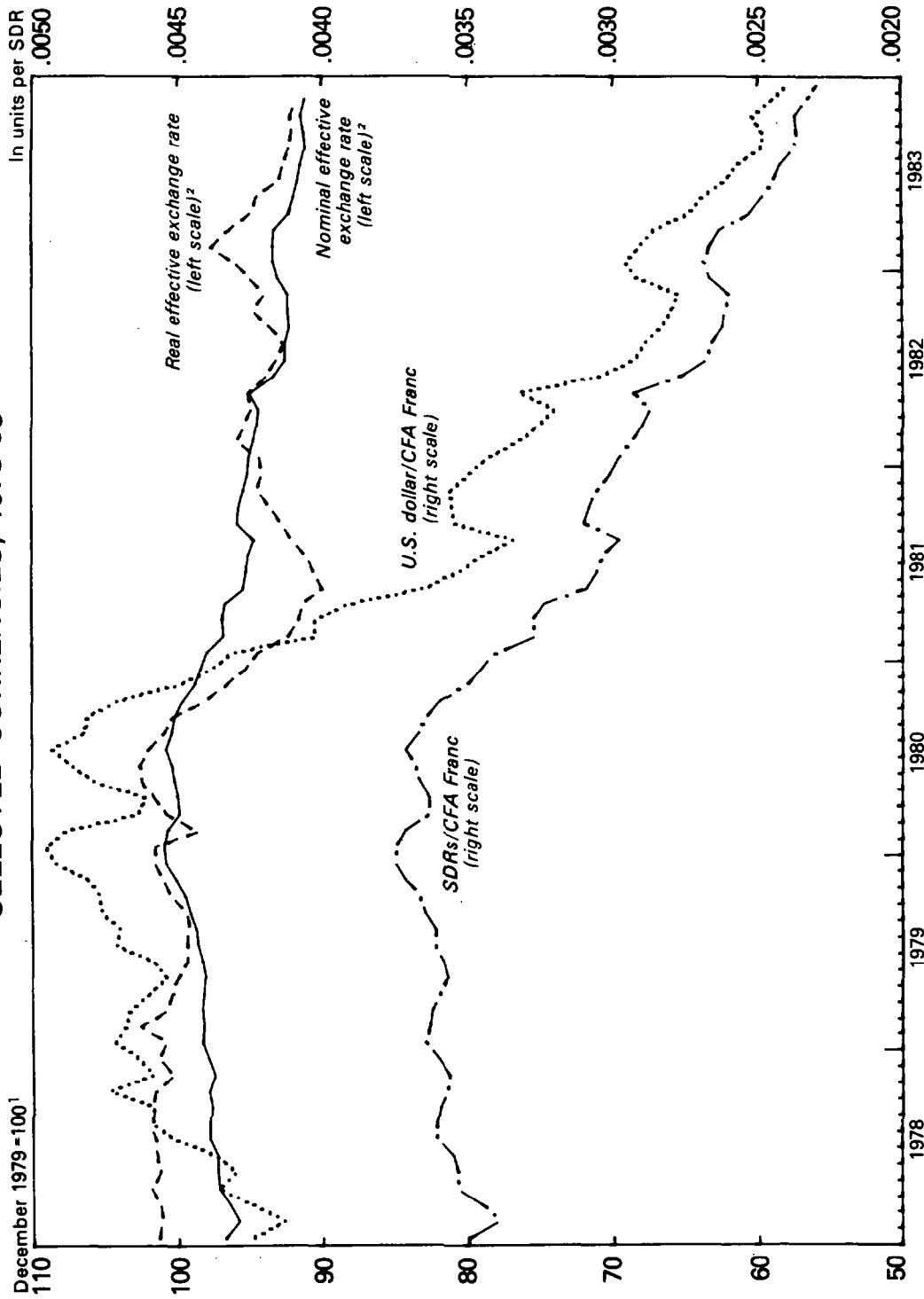
Sources: Data provided by the Gabonese authorities; and staff estimates.

1/ Data on guaranteed debt were revised during 1983. Available data do not yet permit a breakdown between drawings and adjustments.

2/ Includes fees and commissions.

3/ Largely exchange valuations, also includes errors and omissions.

CHART 3
GABON
MOVEMENTS OF THE EXCHANGE RATE AGAINST
SELECTED CURRENCIES, 1978-83



Sources: IMF: *International Financial Statistics*, and staff estimates.

¹Decline in index denotes depreciation of CFA Franc.

²Import weighted basket.



About 7.7 million tons would continue to be lifted under concession arrangements. The average export price for Gabon's oil during 1984 is expected to be around US\$29 per barrel, reflecting the various oil qualities.

Based on these assumptions, the 1984 budget calls for total petroleum revenue of CFAF 341 billion (US\$874 million), an increase of 18 percent and equivalent to 25 percent of GDP. Revenue from production sharing alone is expected to contribute CFAF 54 billion, or 16 percent of total oil revenue. Nonpetroleum revenue is projected to rise by 11 percent, a rate twice as high as that registered in 1983, as a result of the expected faster economic recovery in the non-oil sector. The 1984 budget provided for only a minor modification in the turnover tax, with no significant impact on total revenue. Overall, total revenue and grants are projected to grow by 15 percent over the 1983 provisional outturn to reach CFAF 534 billion, an amount equivalent to about 40 percent of GDP, compared with a decline in total revenue and grants of 2 percent in 1983.

On the expenditure side, the budget projects a significant slowdown in the rate of increase of current and capital outlays, which are expected to rise by 5 percent and 13 percent, respectively, compared with 11 percent and 43 percent in 1983. About one half of the growth in current expenditure is allocated to wages and salaries, which are budgeted to rise by 11 percent, or virtually the same rate as in 1983. The Gabonese representatives attributed this to an expected increase in the size of the civil service (5 percent) and nominal wages (6-7 percent). The staff representatives expressed concern over the trends in the government wage bill and employment policy, as these represented areas where reductions would be difficult to carry out in the future. The Gabonese representatives commented that, while the Government did not have a legal obligation to recruit all university graduates, it was facing pressing needs for staffing in such essential sectors as education and health; furthermore, they indicated that their policy of "Gabonization" would, in the long run, lessen the country's present dependence on costly foreign technical assistance. As for wage policy for 1984, they pointed out that they expected a general increase in the minimum wage, and that the budgeted 7 percent raise for civil servants would prove to be lower than the increases in the private sector wages. Efforts would be made to contain the increase in current outlays on goods and services to 4 percent in 1984, compared with 30 percent in 1983, through the tightening of expenditure controls and discouraging suppliers from providing goods and services to spending ministries unless given proof that budgetary appropriations existed. Budgeted appropriations for clearing arrears resulting from unauthorized expenditure are expected to be one third lower than in 1983, when certain exceptional expenditures were made outside the budget.

The staff team noted that, while the Government had continued to tighten up criteria for granting subsidies to public enterprises, little progress had been made in negotiating contractual agreements (contrats-programmes) with them, as had been the stated intention. The purpose of these agreements was to specify performance criteria that have to be met

for the Government to pay the totality or part of losses sustained by the eligible enterprises providing socially important services. The Gabonese representatives commented that the only contractual agreement currently in force was signed with Air Gabon in January 1983, but they added that discussions were under way with four other major enterprises operating in the areas of urban transportation, forestry, cement production, and retail trade. However, OCTRA (which operates the Trans-Gabon Railway) would be exempted from this arrangement, and the Government would continue to cover the full amount of its operating losses. Use of contractual agreements would be expanded in the future, but progress would inevitably be slow in view of the considerable time needed to improve the managerial capability in these enterprises. While expressing support for the efforts to improve the finances of public enterprises, the staff representatives stressed the importance of taking additional measures, in particular the need for speeding up the negotiation process of the contractual agreements. Furthermore, unless current expenditures of OCTRA were carefully controlled and monitored, its financial problems and subsidy requirements could become a major burden on the budget in the future. In addition, it would be desirable to set up a central authority to oversee the financial operations of all public enterprises, the ministry in charge having been abolished last year. In the area of consumer price subsidies, the Gabonese representatives said that the Government would continue to implement the measures taken during 1983 to reduce, and in certain cases, eliminate subsidies on a number of basic consumer goods.

The mission expressed concern over the composition of the projected investment outlays included in the 1984 budget. Spending on the Trans-Gabon Railway is budgeted for the first time to reach almost 45 percent of total capital expenditure, compared with some 30 percent in past years. Budgeted expenditure on directly productive sectors, though remaining unchanged from 1983 in relative terms at 14-15 percent of the total public investment, represents a smaller proportion than in 1981-82, when it had reached 18 percent of the total. While concurring that the 1984 capital budget would leave relatively little room for financing new development projects, the Gabonese representatives stated that for various reasons the Government would not postpone the construction of the railway; any delay in the project while all the infrastructure and equipment were in place would prove to be extremely costly. However, they agreed that additional efforts would have to be made to raise the quality and efficiency of ongoing projects.

Reflecting these various factors, the Government's overall budget position is expected to improve considerably in 1984, with a surplus projected at CFAF 37 billion, or about 3 percent of GDP. After allowing for payments of arrears, and the amortization of public and publicly guaranteed debt, the Treasury is expected to accumulate deposits of about CFAF 19 billion at the end of the year. While this would represent a significant improvement over 1983, the amount of available liquid resources would still represent less than what is considered an adequate safety margin, i.e., the equivalent of three months' payments of wages

and debt service. The authorities were concerned about these developments. While under the statutes of the BEAC Gabon could obtain ways and means advances, in their view these advances were conceived primarily for countries having a different economic structure. Given the structure of the Gabonese economy, they would prefer to tighten fiscal policy rather than have recourse to such advances.

The balance of payments is expected to show a significant, but temporary, improvement in 1984, largely the result of a 17 percent rise in petroleum export receipts. Merchandise imports are projected to grow by only 12 percent, compared with 21 percent in 1983, as the tightening in fiscal policy is reflected in slower growth in government imports. The growth in net service imports should decline even more dramatically, from an estimated 24 percent in 1983 to a projected 4 percent in 1984, representing much lower operating and exploration costs of the petroleum companies but larger outflows of investment income as oil-sector profits improve. Consequently, the current account surplus is projected to rise to around CFAF 56 billion. The capital account is also expected to strengthen in 1984, owing to higher oil-sector profits, lower net repayments of the public external debt, and a reduced outflow of trade credits. The overall balance of payments surplus is projected to rise to around CFAF 45 billion, near its record 1982 level.

Developments in money and credit during 1984 would largely depend on the outcome of the Government's fiscal operations and the measures taken by the monetary authorities to control credit operations by commercial banks. With the anticipated improvement in the Treasury's liquidity position, the Government is expected to strengthen its creditor position vis-à-vis the banking sector. The authorities indicated that their membership in a common monetary area did not prevent them from adopting additional measures appropriate to Gabon's circumstances or tightening up their instruments of credit policy. These instruments include the rediscount mechanism and a number of statutory ratios to be observed by banks. In this regard, they indicated their resolve to initiate shortly a study of appropriate measures to be taken upon consultation with members of Gabon's Monetary Committee (Comité Monétaire) and the National Credit Council (Conseil National de Crédit).

2. Medium-term prospects and policies

The authorities are currently in the process of preparing a new five-year plan covering the period 1984-88. Based on the experience of the past, the plan formulation process this time has been greatly decentralized in order to elicit a larger participation of various ministries and other organizations; however, this has resulted in considerable delays in its preparation. Preliminary sketches of the plan are expected to be completed in the first quarter of 1984, and will be followed by several stages of discussion. No information is available as yet on the amounts of likely investments or their sources of financing. In general, the authorities indicated that their development strategy would continue

to emphasize a liberal and open economy, the promotion of regional cooperation with neighboring countries, the diversification of the economic base, and the improvement of social welfare. Given this framework, great emphasis would be placed on improving the competitiveness of the industrial sector by, inter alia, pursuing more restrictive wage policies and accelerating the training of Gabonese nationals. This was expected to reduce the present differentials in prices and wages between Gabon and neighboring countries in the Central African Customs and Economic Union (UDEAC).

Productive sectors, agriculture and rural development in particular, will be accorded the highest priority, followed by education, communication, and social services. The Gabonese representatives said that Gabon enjoys a comparative advantage in mining, forestry, fishing, and fish processing and has some potential in agriculture. Prefeasibility studies are currently under way to determine the profitability of several large projects in the areas of iron-ore mining, forestry, and electricity production. The mining project would require the construction of another branch of the Trans-Gabon Railway and a mineral port, whereas the electricity project would depend on the availability of foreign private partners and the selection of appropriate dam sites.

The Gabonese representatives stated that paramount among the lessons learned from the Interim Plan was the importance of careful and detailed project identification and evaluation, particularly in view of the limited absorptive capacity in agriculture and industry. Therefore, the authorities would take full advantage of the technical assistance being provided by the World Bank, the UNDP, and other consultants in the area of project identification and preparation.

In the circumstances, it was not possible to obtain details of the Government's likely foreign borrowing requirements under the new five-year plan, except for the suppliers' credits of approximately CFAF 161 billion already contracted for the Trans-Gabon Railway. However, the authorities indicated that they would continue to pursue a cautious foreign borrowing policy; in particular, they would attempt to match the amounts of new drawings and amortization so as to keep the size of Gabon's outstanding external debt approximately constant (see Table 2). A similar policy stance would be applied to government guarantees to loans received by public enterprises, and no guaranty would be given without a scrutiny of the companies' balance sheets. On the basis of these policies, outstanding public and publicly guaranteed debt through 1986 has been projected to remain at approximately CFAF 310 billion. Total debt service payments would be about CFAF 100 billion per year (of which about one third for OCTRA), equivalent to about 11 percent of exports of goods and services and private transfers, or some 20 percent of total budgetary expenditure.

Taking into account the authorities' stated external borrowing policy, the staff team discussed with the authorities Gabon's medium-term prospects on the basis of known proven oil reserves (which indicate a

declining trend in output during the five-year period of the plan), conservative oil price projections, an unchanged exchange rate of the CFA franc vis-à-vis the U.S. dollar, and two alternative scenarios of government financial policies. Assuming a continuation of present trends in government expenditures in the first scenario, the Government's overall financial position would deteriorate sharply, shifting from a small surplus in 1985 to increasingly larger and unsustainable deficits through the second half of the 1980s (Chart 4). There would be similar trends in the current account and the overall balance of payments (Chart 5). Given the Government's policy with regard to domestic and foreign financing, there would be little prospect of financing the large financial gaps that would emerge in the budget and balance of payments. On the other hand, under the second scenario the severity of the financial imbalances would be attenuated through the adoption of more cautious expenditure policies. These would include measures to contain the growth in expenditure on goods and services and transfers in order to limit the growth of current expenditures within reasonable bounds, and to restrain sharply all capital expenditure other than for the Trans-Gabon Railway.

The Gabonese representatives stated that the second scenario appeared more realistic in their view, reflecting the Government's long-standing policy of adjusting expenditure policies to available resources. Under the second scenario there would be no overall budgetary deficit, but there would remain a small financing need after payments of arrears. However, even under the second scenario, the balance of payments would shift into widening deficits on the current account, as well as on the overall balance, in the latter part of the 1980s, but this deterioration would be much less serious than under the first scenario. The Gabonese representatives were confident that ongoing petroleum exploration activities would, as in the past, yield new oil discoveries and that, with a more favorable level of oil production than assumed in the scenarios, the financial outcome was likely to be better. However, in the preparation of the plan, they would continue to base policies on known and proven oil reserves so as to have a reasonably certain base for projection.

There was agreement with the Gabonese representatives that the examination of the two scenarios had shown that, on the basis of the assumptions used, and taking as given the desired completion date of the Trans-Gabon Railway (July 1987), there was very little margin for starting new projects under the five-year plan. The staff representatives stressed in this context that more emphasis should be given to improving the efficiency of existing projects that promise relatively early economic benefits. At the same time, it would be necessary to maintain prudent fiscal and monetary policies so as to avoid putting additional upward pressure on wages and prices, which would aggravate further the already difficult competitive position of the Gabonese economy. The Gabonese representatives agreed with these views but added that certain sociopolitical factors would also need to be reflected in the final version of the plan.

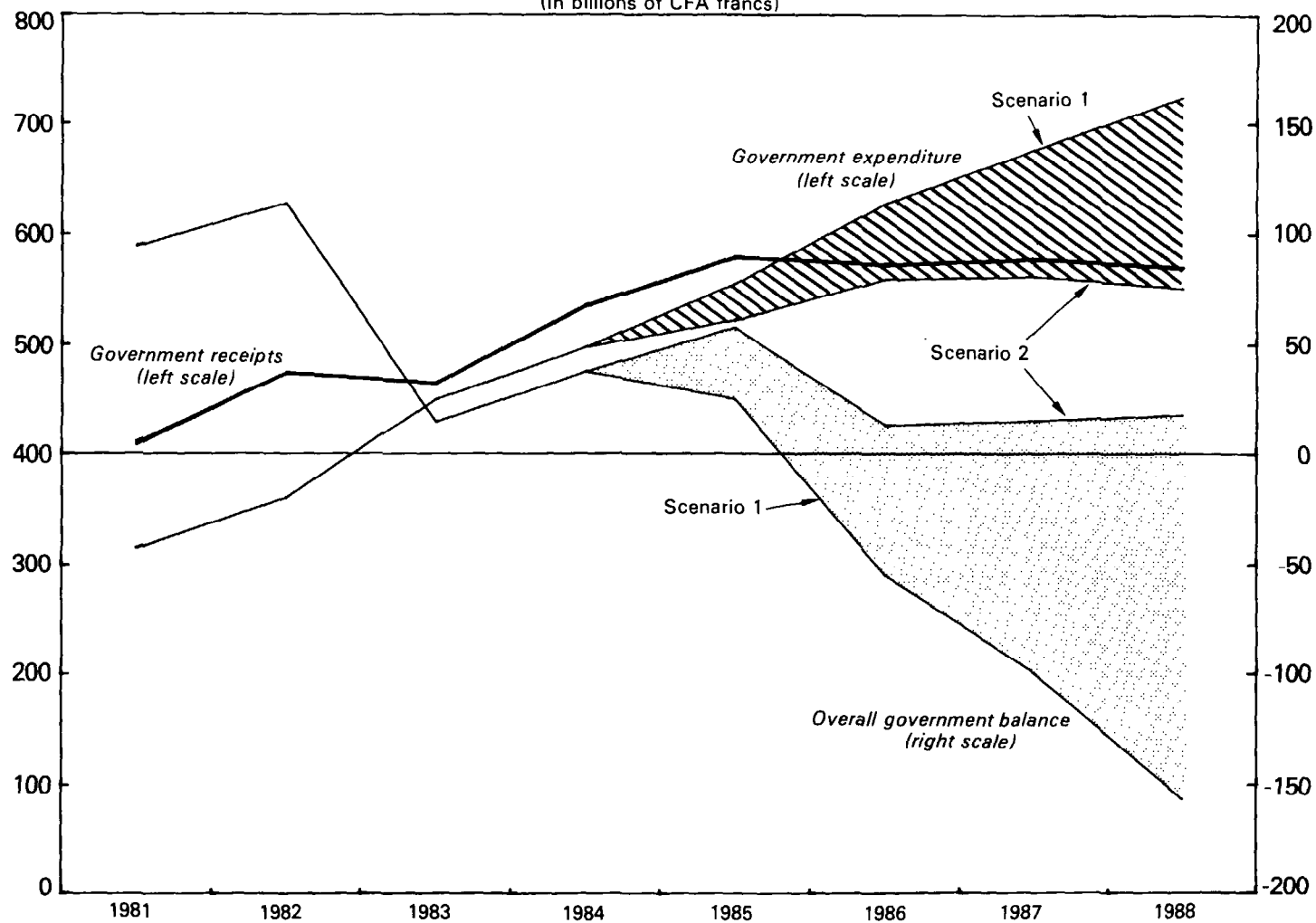
V. Staff Appraisal

The implementation of Gabon's three-year economic and financial program (1980-82), which was supported by an extended arrangement with the Fund, was successful in the attainment of its financial goals; in particular, there were marked improvements in the Government's fiscal and external positions during that period. However, performance fell short of expectations in the area of growth, diversification of investment in favor of the productive non-oil sectors, and the implementation of the structural adjustment measures envisaged under the program.

Against this background, the 1983 budget sought an acceleration of economic growth, mainly through a substantial acceleration of capital expenditure included in the budget. The 1983 budget was prepared at a time when the resource prospects from oil appeared favorable. In the event, in early 1983 there was a weakening of the world petroleum markets, and budgetary revenue from oil fell sharply compared with the original estimates. Despite certain adjustment measures taken during the course of the fiscal year, including the postponement of a number of infrastructure projects and the reduction of subsidies on some basic consumer goods, the fiscal outturn in 1983 showed a substantial deterioration compared with the previous period. Total budgetary expenditure in 1983 is estimated to have risen by 26 percent in 1983, or about twice the rate of increase of the preceding year. As a result, the overall budgetary surplus fell sharply and, after taking account of the repayment of domestic arrears, necessitated a large-scale drawing down of government deposits. The worsening fiscal situation was reflected in an acceleration of the increase in money supply, a deficit in the balance of payments for the first time in several years, and additional pressures on wages and prices.

According to tentative staff estimates, real GDP may have grown slightly in 1983, largely on account of a higher volume of oil production, but production in Gabon's traditional export sector (wood, manganese, and uranium) remained depressed as a consequence of the recession in Gabon's partner countries. There are no clear signs yet of a revival in the other sectors of the economy, in particular in the construction and public works sector, which had led the boom in the 1970s. These developments highlight Gabon's continued dependence on oil and the need for diversification and structural adjustment away from the oil sector. However, Gabon continues to face formidable obstacles in this process, including in particular the small and segmented domestic market, a relatively high price and wage structure, and continued underutilization of industrial plant capacity. All these factors adversely affect investment opportunities and the competitiveness of Gabon's industry. Moreover, public investment has been heavily concentrated on infrastructure with heavy recurrent maintenance costs for the future, particularly the construction of the Trans-Gabon Railway, while the directly productive projects being implemented have relatively long gestation periods and have not yet entered into production.

CHART 4
GABON
CENTRAL GOVERNMENT FINANCE¹, 1981-88
(In billions of CFA francs)



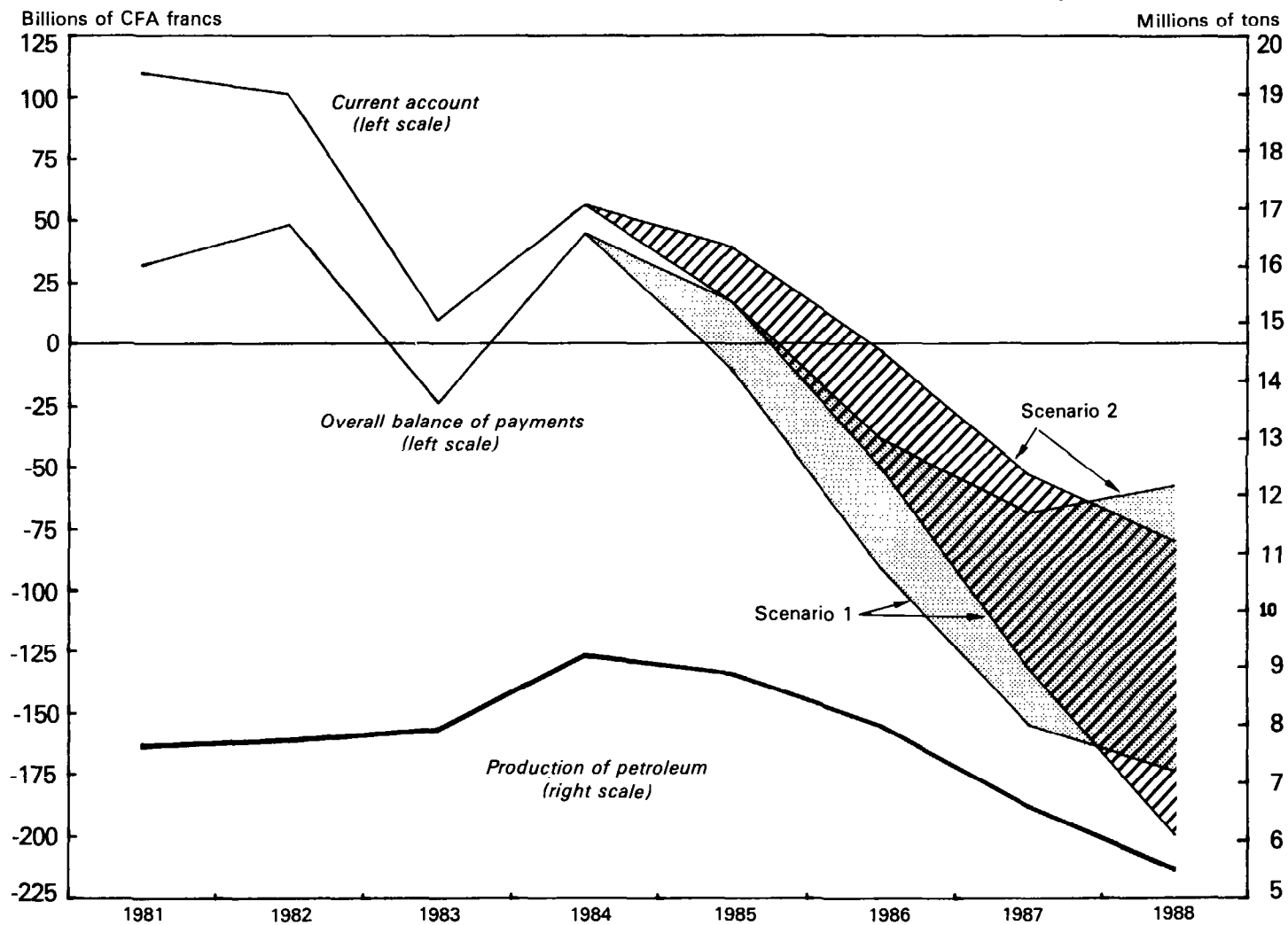
Sources: Data provided by the Gabonese authorities, and staff estimates and projections.

¹1981-82, actual data; 1983, estimates; 1984, budget; 1985-88, scenarios.



CHART 5
GABON

BALANCE OF PAYMENTS AND PETROLEUM PRODUCTION, 1981-88



Sources: Data provided by the Gabonese authorities, and staff estimates and projections.

¹1981-82, actual data; 1983, estimates; 1984-88, scenarios.

As a consequence of the experience of 1983, the Gabonese authorities have rightly decided to return to less expansionary budgetary policies in 1984. Fortunately, the restoration of fiscal balance in 1984 will be greatly facilitated by the coming on stream of a major new oil field under a production sharing agreement, which is expected to boost both oil production and government revenues. The brunt of the budgetary restraint will fall on capital expenditure, whose expansion is expected to decline to 13 percent compared with an estimated 43 percent in 1983. With the Government's decision to complete the Trans-Gabon Railway according to schedule, major cuts in other capital expenditure were required, resulting in a decline in the proportion of directly productive public investment in the total. While recognizing that delaying the completion of the railroad would be quite costly in view of the investments already made, the staff would have preferred a greater emphasis on directly productive investments in the 1984 budget. In any case, the efforts being made to restrain the expansion of current expenditure will need to be pursued with determination. In particular, expenditure control should be tightened to prevent the emergence of additional unpaid bills arising from unauthorized expenditures outside the budget, which have to be settled in the subsequent year. In addition, further progress needs to be made in controlling the recruitment into the civil service and improving the finances of public enterprises, primarily by strengthening their management.

As the result of the authorities' efforts to strengthen the fiscal position for 1984, the Treasury's liquid deposits with the central bank as well as external assets are expected to improve considerably. The staff believes that it is appropriate for a country like Gabon to build up an adequate cushion of reserves to avoid the need for sudden and disruptive corrective actions in the face of unforeseen developments in the world oil markets. At the same time, the staff would again emphasize the need to pursue prudent fiscal and monetary policies so as to avoid putting additional upward pressures on wages and prices, which would further aggravate the already difficult competitive position of the Gabonese economy.

The authorities are currently in the process of preparing a new five-year development plan, and information on the amounts of proposed investments or their likely financing is as yet not available. Gabon's broad development strategy, which will continue to be based on a liberal and open economy, the promotion of regional cooperation, the diversification of the economic base, and the improvement of social welfare, appears sound. Based on generally cautious assumptions, the staff has discussed with the authorities alternative scenarios of government financial policies over the next five years. It appears from these discussions that if the Trans-Gabon Railway is to be completed on schedule and unless substantial new oil discoveries are made, there would be little margin for starting new projects under the five-year plan. The staff believes that it would be desirable to improve the efficiency of existing projects

and industries, as well as to select a few carefully identified and prepared projects that promise relatively early economic benefits. Such a policy, together with expenditure restraint for all nonproductive purposes and the continued pursuit of cautious internal and external borrowing policies, would need to be implemented on a sustained basis to avoid the re-emergence of serious balance of payments difficulties in the future.

It is recommended that the next Article IV consultation with Gabon be held on the standard 12-month cycle.

VI. Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

1. The Fund takes this decision in concluding the 1983 Article XIV consultation with Gabon, in light of the 1983 Article IV consultation with Gabon conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance Over Exchange Rate Policies).

2. The Fund notes with satisfaction that Gabon continues to maintain an exchange system that is free of restrictions on payments and transfers for current international transactions.

I. Relations with the Fund

(December 31, 1983)

IMF data

Date of membership	September 10, 1963
Status	Article XIV
Quota	SDR 73.1 million.
Intervention currency and the rate	French franc; CFAF 1 = F 0.02
Local currency/SDR equivalent	CFAF 436.97 = SDR 1
Fund holdings of Gabon's currency	SDR 67.9 million or 92.9 percent of quota
Net cumulative allocation of SDRs	SDR 14.1 million
Holdings of SDRs	SDR 0.4 million (or 3.0 per- cent of the net cumulative allocation of SDR 14.1 million)
First three phases of gold distri- bution	Acquired 12,837 troy ounces of fine gold
Direct distribution of profits from gold sales	US\$2.4 million

Staff contacts and technical assistance

1. The 1982 Article IV consultation report (SM/83/41) and the staff report and review of the extended arrangement (EBS/83/42) were discussed by the Executive Board on May 27, 1983.
2. The Fund has provided Gabon with short-term technical assistance in debt management, general statistics, government finance statistics, and customs administration. An expert in expenditure control from the fiscal panel was stationed in Libreville during the year ended October 1980. A Fund technical assistance mission visited Libreville in the period October 26-November 13, 1980 to review the tax system, and its report was issued on April 23, 1981. The head of that mission returned to Libreville July 19-25, 1981 to discuss a separate report on oil taxation, which was issued on September 21, 1981. A member of the fiscal panel

visited Libreville in the period May 23-June 6, 1981 to follow up on technical assistance in the field of customs administration. During the period August 1981-August 1983 another expert from the fiscal panel was assigned to Libreville as General Fiscal Advisor to the Minister of Economy and Finance.

II. Relations with the World Bank Group

Between 1959 and 1975 the IBRD approved six loans to Gabon totaling US\$69.3 million, most of which has been disbursed; no new commitments have been made since then. In view of its relatively high GNP per capita, Gabon has never been eligible for IDA credits. IBRD staff participated in the 1980 Article IV consultation mission. In April 1981 Gabon requested technical assistance from the World Bank in the planning field. A project financed mainly by the Gabonese authorities and partly by the UNDP, and with the IBRD as an executing agency, became operational in early 1983. It provides experts to the Ministry of Planning in the area of project evaluation and investment budget programming. The IFC and the Gabonese authorities have also been in contact on proposals for future IFC operations in Gabon.

GABON - Basic Data

Area, population, and GDP per capita

Area	267,000 sq km
Population	
Total (1982 official estimate)	1.2 million
GDP per capita (1982)	SDR 2,449

	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u> Est.
<u>GDP 1/ (at constant 1978 market prices)</u>					
Total (in billions of CFA francs)	644.6	644.4	622.4	628.6	641.2
Oil sector (in percent of total)	40.5	36.8	32.8	32.9	33.0
Non-oil sector (in percent of total)	59.5	63.2	67.2	67.1	67.0
Annual real rate of growth (in percent)	-0.7	--	-3.4	1.0	2.0
Investment as percent of GDP (at current market prices)	31.5	26.7	32.2	33.7	35.9

(Percent change)

Consumer prices in Libreville
(Period averages)

Low-income households	7.9	12.3	8.8	16.7	11.0
High-income households	6.6	9.7	10.1	12.0	14.0

(In billions of CFA francs)

Government finance

Total revenue	237.9	310.4	409.7	473.6	464.0
Oil receipts	(129.9)	(187.2)	(271.5)	(310.2)	(290.0)
Other	(108.0)	(123.2)	(138.2)	(163.4)	(174.0)
Total expenditure	205.1	245.0	315.2	360.0	453.5
Current budgetary expenditure	(130.2)	(148.9)	(179.6)	(191.0)	(212.5)
Capital budgetary expenditure	(74.9)	(96.1)	(134.6)	(169.0)	(241.0)
Overall surplus or deficit (-)	32.8	65.4	94.5	113.6	10.5
Domestic bank financing 2/ (as a percentage of overall surplus)	-32.9	30.3	38.1	43.3	-406.7
Foreign financing 2/ (as a percentage of overall surplus)	25.0	50.6	43.5	36.4	149.5
Overall surplus as percent of GDP	5.1	7.2	9.3	9.9	0.9

1/ All real GDP data are estimated.

2/ Net lending by the Government.

GABON - Basic Data (continued)

	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u> Est.
(In billions of CFA francs)					
<u>Money and credit (end of period)</u>					
Foreign assets (net)	-14.1	7.5	32.3	84.2	66.7
Domestic credit	173.0	185.8	183.5	172.0	208.7
Claims on Government (net)	(44.6)	(38.4)	(8.1)	(-18.7)	(-20.9)
Claims on private sector	(123.3)	(142.6)	(171.0)	(185.0)	(201.5)
Claims on public institutions (gross)	(5.1)	(4.8)	(4.4)	(5.7)	(10.0)
Money and quasi-money	122.4	152.1	176.1	199.6	236.4
Domestic credit (percent change)	7.0	7.4	-1.2	-4.6	21.3
Money plus quasi-money (percent change)	8.5	24.3	15.8	13.3	18.4
<u>Balance of payments 1/</u>					
(In millions of SDRs)					
Exports, f.o.b.	1,391	1,945	1,866	1,957	1,847
Of which: oil	(995)	(1,503)	(1,514)	(1,632)	(1,544)
Imports, f.o.b.	-473	-636	-713	-655	-703
Trade balance	918	1,309	1,153	1,302	1,145
Services	-696	-817	-755	-967	-1,069
Private transfers	-123	-121	-79	-76	-74
Government transfers	34	26	24	22	22
Balance on current account	133	396	342	280	24
Capital account (net) 2/	-145	-321	-238	-164	-88
Official	-56	-79	-137	-117	-39
Private	-89	-242	-101	-47	49
Of which: long-term	(82)	(45)	(56)	(201)	(66)
Allocation of SDRs and revaluations	6	4	-4	18	24
Overall balance (deficit -)	-6	79	100	134	-61
<u>Gross official foreign reserves</u>					
(end of period)					
Total	20.7	90.1	174.8	287.6	183.3
In weeks of imports	1.7	6.7	13.9	21.3	13.0

1/ 1983 data are estimates.

2/ Including errors and omissions.

GABON - Basic Data (concluded)

	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u> Est.
	<u>(In millions of SDRs)</u>				
<u>Public external debt</u> (end of period)					
External public debt	1,122.8	893.9	730.6	665.9	600.0
Government-guaranteed	74.8	73.3	72.9	127.8	120.6
Total	1,197.6	967.2	803.5	793.7	720.6
Debt service (as percent of exports of goods and services and private transfers)					
Excluding the Fund	23.1	16.4	14.1	13.9	13.0
Including the Fund	23.1	16.6	14.1	14.0	13.4

Sources: Data provided by the Gabonese authorities; and staff estimates.