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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 84/47

10:00 a.m., March 28, 1984

J. de Larosière, Chairman
W. B. Dale, Deputy Managing Director

Executive Directors	Alternate Executive Directors
A. Alfidja	
	G. Ercel, Temporary
B. de Maulde	X. Blandin
	J. Delgadillo, Temporary
	M. K. Bush
M. Finaish	T. Alhaimus
	Y. Okubo, Temporary
	S. Sornyanyontr, Temporary
	G. W. K. Pickering, Temporary
	H. A. Arias, Temporary
	G. Grosche
	C. P. Caranicas
	A. S. Jayawardena
	S. El-Khouri, Temporary
	A. A. Scholten, Temporary
	H.-S. Lee, Temporary
G. Salehkhou	O. Kabbaj
	E. I. M. Mtei
	E. Portas, Temporary
	A. Lindø
	J. Bulloch, Temporary
	Shao Z., Temporary

L. Van Houtven, Secretary
B. J. Owen, Assistant

Also Present

African Department: J. B. Zulu, Director; O. B. Makalou, Deputy Director; E. L. Bornemann, F. d'A. Collings, S. E. Cronquist, A. B. Diao, M. Fiator, R. P. Kronenberg, M. Sidibe, E. van der Mensbrugghe. Exchange and Trade Relations Department: W. A. Beveridge, Deputy Director; S. Kanesa-Thasan. Legal Department: J. K. Oh. Personal Assistant to the Managing Director: S. P. Collins. Advisor to Executive Director: J.-C. Obame. Assistants to Executive Directors: H. Alaoui-Abdallaoui, M. B. Chatah, D. Hammann, A. K. Juusela, H. Kobayashi, M. Rasyid, J. C. Williams.

1. GABON - 1983 ARTICLE IV CONSULTATION

The Executive Directors considered the staff report for the 1983 Article IV consultation with Gabon (SM/84/45, 2/15/84). They also had before them a report on recent economic developments in Gabon (SM/84/53, 2/28/84).

Mr. Alfidja made the following statement:

After successfully implementing a Fund-supported medium-term program for 1980-82, which placed Gabon on a stronger financial course, characterized by surpluses in the budget and the balance of payments, the Gabonese authorities have sought to accelerate economic growth. The pursuit of this objective has, however, proved difficult, for reasons that are well described in the staff report.

Despite several measures taken by the authorities to promote a more important contribution to output by the non-oil private sector, progress has remained somewhat disappointing. The recovery in overall activity has lagged behind expectations, with a very moderate expansion in GDP of 2 percent in 1983. The share of agricultural output in GDP has been small over the years. Several obstacles have frustrated my authorities' effort to bring about durable improvements in this vital sector. One of these obstacles continues to be the youth exodus to urban centers, a topic referred to by a number of Directors during previous Board discussions. Policy planners and makers in Gabon are convinced that, unless an adequate solution is found to this problem, no substantial progress can be achieved in the rural area and toward the diversification of the economy.

The Gabonese authorities therefore intend to continue to provide multiform assistance to farmers, including the supply of planting and harvesting equipment, insecticides, fuel, spare parts, and extension services. Steps are being taken to halt or even to reverse the exodus from rural areas by ameliorating living conditions and communications in these areas. At the risk of being repetitive, I would like once again to restate my authorities' determination to promote as rapidly as possible the diversification of the economic base of the country. But as recognized by this Board during the 1982 Article IV consultation with Gabon at EBM/83/76 (5/27/83), diversification is easier to suggest than to achieve, and must be considered a time-consuming process that calls for determination and perseverance; my Gabonese authorities have both qualities. They will continue to examine, with institutions such as the World Bank and UNDP and within the framework of the 1984-88 medium-term plan under preparation, the most appropriate ways to deal with the issue. In the course of implementing their medium-term development strategy, the Gabonese authorities, who are strongly committed to an open and liberal economy, will seek to promote regional cooperation with neighboring countries through institutions like UDEAC (Union Douanière des Etats de l'Afrique Centrale) and CEEAC (Communauté Economique des Etats de l'Afrique Centrale). They intend also to put further emphasis on productive investments while improving the competitiveness of enterprises and upgrading educational, training, and communications facilities.

As a result of the Gabonese authorities' attempt to accelerate economic growth, the overall fiscal position deteriorated substantially in 1983. A relatively large and exceptional increase in spending related to outlays on the Trans-Gabon Railways was coupled with a decline in revenue resulting essentially from a decline in oil prices. At the same time, restraint was applied to other spending areas; for instance, appropriations that were to have been provided to some nonviable enterprises, which the Government had courageously decided to liquidate, were cancelled.

In 1984, the financial position of the Central Government is forecast to improve markedly owing to a recovery of revenue growth together with a slowdown in the expansion of outlays. Revenue and grants are budgeted to rise by 15 percent compared with a fall of 2 percent in 1983, on account of higher oil output and the effect of the recovery in the world economy. On the expenditure side, the growth of current spending is expected to slow down from 11 percent in 1983 to 5 percent in 1984, whereas capital outlays might rise by 13 percent compared with 43 percent in the preceding year.

Regarding the profile of current outlays, the staff expressed concern on page 7 of SM/84/45 about the evolution of wages and salaries and the employment policy in the government sector. In particular, the staff noted that half of the budgeted increase in current expenditure in 1984 is attributable to the rise in the wage bill. The Gabonese authorities realize that a rapid increase in the wage bill could create serious financial imbalances in the years to come. However, as correctly reported by the staff, the Government cannot ignore the need to fill positions in key socioeconomic sectors. Similarly, the need for the services of temporary workers must be met. Furthermore, it cannot be overlooked that the persistence of inflationary pressure in the economy and the reduction in consumer subsidies have adversely affected the real income of government workers, and that since 1980 there has been no general wage increase, except for an increase in the minimum wage for low-income workers in 1982. In any event, the Gabonese authorities intend to exercise fiscal restraint and to restore a stronger creditor position vis-à-vis the banking sector.

Developments in the monetary sector have mirrored fluctuations in the position of the government sector, and the credit policy of the banking sector. Following a period during which the government sector has been in a strong position, state deposits have been drawn down considerably in 1983, a reflection of the authorities' decision to accelerate the implementation of some development projects. It is to be noted that the Government's recourse to its deposits for financing its deficit did not create any major difficulty for the commercial banks, which enjoyed a comfortable liquidity position in 1983.

Financial operations in the external sector were characterized in 1983 by a sharp deterioration in the current account. This deterioration reflected chiefly financial service outflows associated with the expansion of exploration and operating activities of the oil sector. The unfavorable development in the terms of trade of Gabon has also played a role in the weakening of the external accounts. The continuation of the deterioration in the current account and the significant net outflow of short-term capital swung the overall balance of external operations into a deficit position in 1983, for the first time over a four-year period. The outlook for 1984 is for an improvement in these operations, largely on account of growth in petroleum exports and a slowdown in service outflows associated with the exploration and operations of oil fields. The Government plans to rebuild the country's foreign position to a prudent level.

As far as external debt is concerned, my authorities are determined to pursue the cautious public external borrowing policy initiated in 1980. Their stated objective in this field is to maintain the outstanding debt ratio and the debt service ratio at the 1982 levels for the coming years.

Mr. Mtei observed that some gains had been made in reducing internal and external imbalances in Gabon's economy from 1980 to 1982, when the authorities had embarked upon a stabilization program supported by an extended arrangement with the Fund. Partly as a result of the financial discipline entailed under the arrangement, but largely as a result of the firmness in the price of oil during the program period, the fiscal as well as the external position had improved, with surpluses being recorded on the budget and in the balance of payments. However, economic growth had fallen short of expectations, as real output had either declined or stagnated. It also appeared that the objective of diversification had not been met. Having attained stable financial conditions, the authorities had understandably been keen to stimulate economic activity in 1983. With the benefit of hindsight, the resulting capital expenditure had proved excessive; even so, the growth in real output had remained somewhat sluggish, reflecting the continued global recession, which had depressed the demand for oil. As a consequence of the rapid expansion of imports associated with the investment program, the deterioration in the terms of trade by 14 percent, and, as Mr. Alfidja had mentioned, some capital movements, the surplus on the current account of the balance of payments had fallen sharply, and the overall balance had registered a deficit for the first time since 1979.

The financial and economic developments in 1983 were a pointer to the authorities that imbalances could re-emerge unless precautionary measures were taken, Mr. Mtei continued. It was therefore encouraging to note from the staff report and from Mr. Alfidja's statement that in formulating the 1984 budget the authorities were curtailing fiscal expansion. With that and other measures in place and, perhaps more important, the coming on stream of a new oil field, both the fiscal and balance of payments positions were projected to show significant improvements in 1984. However, he had noted that the burden of adjustment in the fiscal area was expected to fall on the capital budget, which he feared might constrain future productive capacity. When the Executive Board had considered the staff report for the 1982 Article IV consultation with Gabon (EBS/83/42, 2/24/83; EBM/83/76, 5/27/83), his chair had expressed concern about the decline in the share of agriculture in total investment because the sector provided ample scope for diversification. However, as was clear from the staff report, while expenditure on certain infrastructural programs like the Trans-Gabon Railway project, important as they might be, had been allowed to proceed, it had been at the expense of a number of projects in directly productive sectors, including the agricultural sector. The authorities might well be advised to strike an economically healthy balance between investments in infrastructure and in directly productive sectors if they were to strengthen the economy and eventually achieve the objective of diversification.

At a time when the authorities were engaged in formulating their medium-term strategy within the framework of a new five-year plan, those considerations were important, Mr. Mtei went on. He endorsed the proposed broad policy objectives, which emphasized, inter alia, the diversification of the economic base in order to reduce Gabon's dependence on the oil sector. Inadequate project preparation and insufficient administrative capacity had hampered the efficient implementation of earlier development programs. Could the staff or Mr. Alfidja say whether any progress had been made in strengthening the planning machinery? He hoped that the technical assistance that the authorities intended to seek from the World Bank and elsewhere would be forthcoming.

In implementing the investment program, Mr. Mtei concluded, the authorities had indicated their intention to pursue a cautious policy on external borrowing in order to avoid creating a debt service problem that could constrain future growth. At present, unlike many other developing countries, Gabon's external debt and its profile were within its debt carrying capacity, and the authorities therefore should be urged to continue their prudent policy stance on external debt. He supported the proposed decision.

Mr. Salehkhou noted that economic developments in Gabon in 1983 had generally been characterized by a deteriorating trend, in contrast with the commendable progress achieved throughout the three preceding years under the precautionary extended arrangement with the Fund. The relatively disappointing performance of 1983 had to a large extent been related to the impact of depressed world petroleum markets, which had prevented the authorities' new growth-oriented policies from attaining their objective and had helped to reverse the trend toward stronger fiscal and balance of payments positions.

However, the outturn in 1983 could also be traced to remaining structural weaknesses, which had been insufficiently tackled under the three-year extended arrangement, Mr. Salehkhou added. Indeed, while policies under the 1980 program which the Fund had supported had markedly improved Gabon's financial position--with a substantial external current account surplus, a large overall surplus in the government budget, and a considerable decline in the amount of public external debt--there had been virtually no real growth during the period of the program, and very little progress had been made toward economic diversification by means of the revival and expansion of non-oil activities.

Thus, the switch to more expansionary policies after the expiration of the stabilization program had seemed appropriate, Mr. Salehkhou remarked. However, owing to the factors he had mentioned, those policies had led to only modest real growth in 1983 and had resulted in the virtual elimination of the substantial budgetary surplus of the previous year, while the balance of payments had registered its first deficit in several years and monetary expansion had accelerated. The new expenditure policy of the Government had rapidly proved unsustainable and had forced a return to more restrictive policies. He welcomed the authorities' return to a more cautious policy stance as the 1984-88 Development Plan was being prepared, particularly with respect to government expenditures. He also agreed with the thrust of the staff appraisal of Gabon's economic and financial policies and would limit his further remarks to two important elements of those policies: the government budget and the medium-term development strategy.

With respect to fiscal policy, although government revenues were expected to increase noticeably following the exploitation of a major new oil field and the expected economic recovery in the non-oil sector, Mr. Salehkhou noted, the burden of adjustment would again fall on capital expenditures, which would increase by 13 percent in 1984, compared with 43 percent in 1983. Moreover, the capital budget continued to provide for only limited expenditures in directly productive sectors, whereas about 45 percent of total capital outlays were allocated to the construction of the Trans-Gabon Railway. Like the staff, he believed that such a pattern of investment expenditure was a matter for concern, especially in view of the authorities' objectives of diversifying the economy and expanding its productive base. However, he also fully understood the dilemma of the Gabonese authorities, faced as they were by a project that was too advanced to permit any delay without incurring extremely high costs.

As for current expenditures, Mr. Salehkhou continued, the authorities' decision to tighten up the criteria for granting subsidies to public enterprises and to reduce or eliminate a number of subsidies on consumer goods should help to ease the burden on the capital budget. As to the staff's concern over the Government's wage and employment policies, the budgeted increase in civil servants' salaries was to be lower than the increase in salaries in the private sector, and the recruitment of university graduates was helping to reduce the country's dependence on costly foreign technical assistance. The efforts aimed at tightening expenditure controls were welcome, but much more could be done, and he wondered whether consideration had been given to obtaining technical assistance from the Fund in order to deal with the problem of unauthorized expenditures.

Referring to Gabon's medium-term policies, Mr. Salehkhou considered that the diversification of the economic base should obviously continue to be central to the authorities' development efforts, despite their expectations of new discoveries of oil. Economic developments in Gabon in the past few years had clearly established the need for Gabon to reduce its dependence on the oil sector, especially given the projection of a declining trend in output during the five years of the upcoming developing plan. It was encouraging to note in that connection that the authorities had expressed their intention to assign the highest priority to productive sectors and to attach particular importance to the careful identification and evaluation of projects, thanks to technical assistance from the World Bank and from other international institutions. Such efforts should greatly enhance the profitability of large projects and determine the viability of new ones, bearing in mind the limited absorptive capacity of the economy. In conclusion, he expressed support for the proposed decision.

Mr. de Maulde stated that the Gabonese authorities were to be commended for having benefited from their various experiences and for tackling seriously and cautiously the different problems that they faced in order to achieve a more balanced development of the economy. Although Gabon was a small country, well endowed with natural resources, it was confronting difficult structural problems.

To mention three of those structural problems, Mr. de Maulde referred first to the extreme dependence of Gabon, as a developing country and as an oil producer, on the course of world oil prices. As shown in Table 1 of the staff report, oil receipts had accounted for 52.5 percent of government revenues in 1983, a percentage that would increase in 1984. The oil glut in 1983 had therefore been largely responsible for the relatively poor performance of the Gabonese economy during the past year. Second, Gabon had a particularly low density of population: just over 1 million inhabitants in a country that was larger, for instance, than Senegal or Ivory Coast. The lack of manpower--and not only of skilled manpower--was a cause of structural rigidities and of bottlenecks. The necessary immigration flows could also be costly in terms of infrastructure, housing, and education. Third, Gabon was an equatorial country, covered mainly by huge forests. Without any doubt, Gabon's great potential for exploiting its forestry resources gave it a comparative advantage, but it also imposed a structural burden on the economy because many regions of the country remained inaccessible. For that reason, at least in part, the Gabonese authorities had concentrated their investment efforts on infrastructure projects to improve communications and transportation facilities, most of which were not only costly but also not immediately productive. In the longer term, such projects might nevertheless be seen to be sounder.

He agreed with the staff, Mr. de Maulde continued, in noting that the interim program implemented in 1980-82 had led to marked improvements in the Government's fiscal and external positions. In his opinion, the Gabonese economy remained basically sound, in spite of what had happened in 1983. Certainly, it could not be said that the balance of payments position was worrisome. A quick turnaround was foreseeable, the Gabonese authorities having profited from experience and committed themselves to return to less expansionary fiscal policies in 1984. The expected improvement in oil revenues would make their task easier. In future, Gabon could avoid the need for disruptive corrective action if it built up an adequate cushion of reserves, which it had not previously had.

The medium-term perspective was somewhat more clouded, Mr. de Maulde concluded, because a number of major structural problems had not yet been solved. Structural adjustment, and diversification of economic activities away from the oil sector, would have to proceed at a steadier pace. The medium-term prospects for petroleum production were not entirely encouraging; it was unclear to him whether the forecasts in Chart 5 of SM/84/45 took account of recent discoveries of oil. The new development plan should therefore be based on clearly defined investment priorities, especially if the Trans-Gabon Railway were to be completed according to schedule, which was apparently necessary. The authorities should emphasize relatively small projects, for the most part perhaps in agriculture, forestry, or mining, that could provide early economic benefits and achieve a better balance among the projects in general. In that respect, he agreed with Mr. Mtei that Gabon could probably benefit greatly from stepped-up technical assistance from the World Bank.

Mr. Finaish considered that, despite the adverse external environment of the past few years, Gabon had been able to make some progress toward restoring domestic financial discipline while maintaining external balance. Overall growth, however, had remained sluggish, and the pace of structural diversification had been slower than expected. Although developments in 1983 had included certain improvements, particularly the somewhat better growth performance, problems had emerged in the fiscal and external sectors. The overall budgetary surplus was estimated to have fallen sharply to 1 percent of GDP in 1983 after averaging 10 percent in the previous three years. The surplus on the current account of the balance of payments had fallen markedly, and the overall balance had registered its first deficit since 1979.

The roots of such shifts in the external and fiscal balances were not difficult to trace, Mr. Finaish added: revenue from both oil and traditional exports was continuing to suffer, owing to depressed global demand. In addition, Gabon's productive capacity was limited, and the oil marketing company had experienced financial difficulties. While government revenue, especially oil receipts, had tended to fall, government expenditures, particularly capital expenditures, had continued to expand at a high rate. As had been noted during the Executive Board's discussion of the staff report for the 1982 Article IV consultation, the Trans-Gabon Railway project was the main factor behind the large capital outlays. The authorities' emphasis on the importance of that project as a means of broadening the geographic base of the economy was understandable, but the financial burden in present circumstances could not be ignored. Furthermore, the fiscal situation had also been affected by the rise in current expenditures. In that respect, it would be interesting to know whether one component of the increase in current spending--namely, the reclassification of jobs--was expected to promote efficiency in the civil service by providing more selective incentives.

The prospects for 1984 seemed to be better, Mr. Finaish remarked, owing not only to the expected improvement in export receipts, but also to a more cautious fiscal policy. The exploitation of a new oil field would lead to an increase in output in 1984. Budgetary expenditures should nevertheless slow down significantly, as the rate of increase in current and capital outlays was expected to fall from 11 percent to 5 percent, and from 43 percent to 13 percent, respectively. The staff had wisely noted in its appraisal on page 13 of SM/84/45 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." The encouraging outlook for 1984 was due partly to an increase in oil exports, which was not expected to continue; as Mr. de Maulde had noted, it would be useful if the staff could say more about its expectations in that respect.

Further efforts had to be made to ensure a more sustainable financial position in Gabon, especially in the medium term, Mr. Finaish concluded. According to the staff's medium-term projection, the scenario based on a continuation of present trends in development expenditures would mean a sharp deterioration in the Government's overall financial position, "from a small surplus in 1985 to increasingly larger and unsustainable deficits through the second half of the 1980s." However, it was encouraging to note that the Gabonese authorities considered the scenario based on a more cautious expenditure policy to be more realistic.

Mr. El-Khouri said that he was in general agreement with the staff analysis and that he could support the proposed decision. In recent years, Gabon's financial performance had been largely satisfactory. The authorities had successfully attained the financial targets under the 1980-82 extended arrangement with the Fund; the fiscal and balance of payments targets had been surpassed; the reserve position had improved significantly. In 1983, however, the authorities had attempted to accelerate economic growth by sharply increasing government expenditures. That policy had coincided with an unexpected decline in oil revenues. As a result, fiscal imbalances had emerged, and the balance of payments and reserve position had deteriorated considerably.

Against that background, Mr. El-Khouri continued, the authorities had adopted a cautious budgetary policy for 1984, for which they were to be commended. Budgetary expenditures were projected to increase by only

9 percent in 1984, compared with an increase of 25 percent in 1983. The policy of expenditure restraint was being applied to both current and capital expenditures. At the same time, budgetary revenues were expected to increase steeply due to the coming on stream of a major new oil field. Those developments should lead to a considerable improvement in Gabon's financial position in 1984.

Gabon's structural adjustment efforts had not been as successful as its financial stabilization efforts, Mr. El-Khouri stated. In particular, limited progress appeared to have been made in diversifying the productive base of the economy, so as to reduce its dependence on oil. The staff had pointed to the technical difficulties encountered in implementing various development projects in the non-oil sectors. It had also pointed out the rigidities and bottlenecks in agriculture and industry, problems that had led to the slow growth of economic activity in the non-oil productive sectors, and it had drawn attention to the need for the authorities to strengthen their structural adjustment efforts. Finally, he commended the authorities on having maintained a liberal exchange and trade system.

Mr. Grosche remarked that he was in broad agreement with the staff appraisal and supported the proposed decision. The rather expansionary fiscal policies followed in 1983 had resulted in a considerable deterioration of both the fiscal and external balance without generating a revival of overall economic performance. Therefore, the authorities had rightly decided in 1984 to return to tighter budgetary policies. At least some of the former slippages might thereby be remedied, even though the sharply increasing money supply had added to inflationary pressures. Compared with those of other main oil exporting developing countries, Gabon's short-term economic prospects were rather favorable. Yet many structural problems remained unsolved, and accordingly the medium-term prospects were not as positive as the current situation might suggest. Since a decline of real oil export earnings had to be expected, addressing those shortcomings without delay would be crucial if severe economic difficulties in the future were to be avoided.

Uncertainty about future oil revenues called for the establishment of a sound base for medium-term and long-term growth in the nonpetroleum sector, Mr. Grosche considered. Progress in restructuring and diversifying the economy to meet that goal had fallen short of expectations, and Gabon's significant dependence on developments in world oil markets had not been reduced. It would seem advisable for the authorities to be more concerned about expanding the productive base in the agricultural and industrial sectors, and about improving the efficiency of existing enterprises. International competitiveness should benefit from tight monetary policies and moderate wage increases.

The medium-term scenarios in the staff report indicated that tight expenditure control was an absolute prerequisite for achieving a sustainable external balance, Mr. Grosche said. In that context, limiting current expenditures seemed as important as confining capital outlays. Expenditure on wages and salaries in particular should be kept under restraint. Moreover, cautious recruitment into the civil service would avoid the absorption by the public sector of too large a number of qualified personnel.

Public enterprises remained a burden on the public budget, Mr. Grosche commented. The authorities' efforts to limit subsidies to those corporations were welcome, but apparently only a few of the planned measures had actually been implemented. Besides, the Trans-Gabon Railway, which accounted for nearly one third of transfer payments to public enterprises, was exempted from those efforts, thus probably limiting the effect of the measures.

In 1983, public investment outlays had accounted for more than 50 percent of public expenditures, Mr. Grosche observed. Because of the increasing scarcity of resources, the composition of those outlays called for particular attention. It was a cause for concern that spending on one major infrastructure project was continuously increasing, whereas the share of investment in directly productive projects had declined in the previous few years. The authorities' determination to complete the project on schedule left only small scope for the implementation of new projects. It would be desirable if more emphasis could be placed on promoting the productive sector and on carrying out projects that would yield an early and satisfactory financial return.

Miss Bulloch stated that her chair supported the proposed decision. She had nothing to add to the staff appraisal, which stressed the necessity of tackling the underlying structural problems that could inhibit the realization of the opportunities open to the Gabonese economy in the medium term. She would simply underline one point noted by the staff. The public sector employment policy did not indeed seem supportive of the general direction of budgetary policy, which the authorities had rightly decided should be less expansionary during 1984.

Ms. Bush said that she was in broad agreement with the staff appraisal and supported the proposed decision. The authorities' decision to return to a less expansionary set of fiscal policies in 1984 was welcome. It would be important for them to vigorously implement their budget for the current fiscal year. Revenue prospects would be greatly improved with the coming on stream of a major new oil field, which would account for 17.2 percent of total oil production in the present, first year of operation, and would contribute 16 percent of total oil revenues.

Her authorities were pleased with the approach taken by the staff in Part IV of SM/84/45, on medium-term prospects and policies, Ms. Bush stated. The two scenarios presented provided insight into the possible future evolution of macroeconomic variables, depending upon the broad policy stance that the authorities chose. In that context, her authorities re-emphasized their belief that Gabon had a critical need for diversification and structural adjustment away from the oil sector. They also agreed with the staff on the desirability of improving the efficiency of existing industries and projects.

The staff representative from the African Department observed that the central preoccupation of the Gabonese authorities was in fact with diversifying and developing the economy away from the oil sector. The lessons of the past had made them aware of the difficulty of that process. Nevertheless, the authorities recognized its importance, and the need for the most careful planning. For that reason, they had sought considerable technical assistance from various sources, including the French Government, the World Bank, and the UNDP. As a consequence, there had been certain inevitable delays in completing the five-year plan that was under consideration.

The other central question raised during the discussion, the staff representative noted, concerned the prospects for the oil sector. Although it might appear to be a matter of semantics, it was important to point out that the staff had not attempted to make forecasts of oil production until 1988, but had prepared scenarios under alternative assumptions to show the financial impact of various policy options. On the crucial question of the volume of petroleum output, the projections in the staff report were based on information provided by the Gabonese authorities themselves. The authorities assumed that exports would peak at about 8.9 million tons in 1984 and would then gradually decline, as depicted in Chart 5 of SM/84/45, to about 5.1 million tons by 1988. The Gabonese authorities had assumed a moderate increase in the nominal price of oil during that period; the exchange rate between the CFA franc and the U.S. dollar had also been assumed to remain constant.

As stated in the staff report, the staff representative added, the continued active exploration for new sources of petroleum would probably yield at least some new discoveries, as had repeatedly occurred during the past decade, and therefore oil production could well be greater than assumed in the scenarios. Nevertheless, in preparing the new plan the Gabonese authorities had wished to have a reasonably certain base for making their projections, and they had thus decided to prepare forecasts based on proven oil reserves.

Gabon had benefited from technical assistance from the Fund in many fiscal areas, including expenditure control, the staff representative from the African Department explained. At present, no further request for technical assistance was pending.

Mr. Alfidja stated that it was not the intention of the authorities in Gabon to make a deliberate shift from investing in directly productive projects to investing in infrastructure. Given the topography of the country, the implementation of infrastructural investment was also of utmost importance. In the past, an effort had been made to set aside resources to promote diversification and to implement projects in the agricultural sector. Unfortunately, it was difficult to prepare and implement such projects successfully and quickly. In fact, however, the decline in productive investment in percentage terms was not so dramatic as to be a cause for great concern. Furthermore, Gabon had not only learned a lesson from its experience, but was also securing technical assistance from the World Bank, the UNDP, and other countries. Under the 1984-88 Plan, the performance of the agricultural sector was expected to improve.

Referring to public sector employment policy, Mr. Alfidja explained that the increase in salaries and wages was intended to be not only an incentive to civil servants' efficiency, but also an investment, the effects of which would be felt in the years ahead as an orderly plan to "Gabonize" technical positions was implemented. It was not apparent to him that the private sector had had any special difficulties in recruiting skilled Gabonese. Executive Directors could rest assured that the Gabonese authorities, who were committed to a liberal and open economy and believed in maintaining a vigorous private sector, would not allow a conflict to develop between the needs of the public sector and those of the private sector.

The Chairman made the following summing up:

> Executive Directors agreed with the thrust of the views expressed in the staff appraisal in the report for the 1983 Article IV consultation with Gabon. They noted that Gabon had entered 1983 in a position of financial strength, following the implementation of a three-year economic and financial program (1980-82) supported by an extended arrangement with the Fund. While targets for the overall balance of payments and budgetary surpluses had been exceeded and the stock of outstanding external debt had been significantly reduced during the program period, performance had fallen short of expectations in the area of structural improvements in the economy and, in particular, of the diversification of investments in favor of directly productive non-oil sectors.
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> Directors agreed that the revised 1983 budget, which sought to stimulate economic growth mainly through an acceleration in investment spending, had constituted an inappropriate relaxation of the savings effort. Despite decisions taken during the course of the year to postpone certain infrastructure projects, the overall budgetary surplus fell sharply. Directors observed that these fiscal developments contributed importantly to a deficit in Gabon's overall balance of payments for the first time in many years, as well as to increased pressures on wages and prices. Directors also noted that the fiscal stimulus did little to promote economic growth.
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> Directors welcomed the decision of the authorities to return to a less expansionary fiscal stance in 1984 and the expectation that a surplus on the overall balance of payments would again emerge. However, it was noted that projections of petroleum revenues should be treated with caution. Directors stressed that the Government's decision to complete the Trans-Gabon Railway according to schedule would entail major cuts in other

capital expenditures and would result in a further decline in the share of directly productive investments in total public investment. They urged the authorities to strike a better balance between investment in directly productive projects, particularly in the agricultural sector, and infrastructure projects. Technical assistance from the World Bank and other international institutions could be useful to the Gabonese authorities in making these investment choices.

Directors also commented that greater attention should be paid to improving expenditure controls and to containing the rapid growth in current expenditure, noting that it would be difficult to reduce such expenditure in absolute terms if revenue developments proved disappointing. In this connection, further progress needed to be made to control recruitment into the civil service, subsidies to public enterprises, and the undertaking of expenditures not authorized by the budget. The present stance in public sector recruitment was considered by some Directors not to be in harmony with the policy of fiscal restraint. In view of the sensitivity of Gabon's financial performance to potentially rapid changes in the external economic environment, Directors agreed on the need for Gabon to rebuild an adequate cushion of foreign reserves to avoid a possible future need for any sudden reduction in imports.

Directors welcomed Gabon's intention to maintain a development strategy based on a liberal and open economy. They noted, however, that unless substantial new oil discoveries were made, the Trans-Gabon Railway would continue to account for a growing share of available investment expenditures, leaving little if any margin for new economic diversification projects under the next Five-Year Plan. Directors consequently believed that it was essential to continue with a few carefully selected projects promising a relatively early economic return. They welcomed the authorities' determination to pursue cautious external borrowing policies and to keep the overall debt burden well under control.

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

The Executive Board then took the following decision:

1. The Fund takes this decision in concluding the 1983 Article XIV consultation with Gabon, in the 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.

Decision No. 7656-(84/47), adopted
March 28, 1984

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Board without meeting in the period between EBM/84/46 (4/12/84) and EBM/84/47 (3/28/84).

2. APPROVAL OF MINUTES

a. The minutes of Executive Board Meetings 83/154 through 83/156 are approved. (EBD/84/90, 3/20/84)

Adopted March 26, 1984

b. The minutes of Executive Board Meetings 83/157 through 83/159 are approved. (EBD/84/93, 3/21/84)

Adopted March 27, 1984

3. EXECUTIVE BOARD TRAVEL

Travel by an Executive Director as set forth in EBAP/84/60 (3/26/84) is approved.

APPROVED: September 5, 1984

LEO VAN HOUTVEN
Secretary