FOR AGENDA

SM/08/229

July 8, 2008

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Gabon—Staff Report for the 2008 Article IV Consultation**

Attached for consideration by the Executive Directors is the staff report for the 2008 Article IV consultation with Gabon, which is tentatively scheduled for discussion on **Monday, July 28, 2008**. At the time of circulation of this paper to the Board, the Secretary's Department has received a communication from the authorities of Gabon indicating that they consent to the Fund's publication of this paper.

Questions may be referred to Mr. Briançon (ext. 38392), Mr. Srour (ext. 36184), and Mr. Iossifov (ext. 36061) in AFR.

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Wednesday, July 16, 2008; and to the African Development Bank, the European Commission, the Islamic Development Bank, and the Organisation for Economic Cooperation and Development, following its consideration by the Executive Board.

This document, together with a supplement providing an informational annex, will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities. The supplement, which is not being distributed in hard copy, will also be available in the Institutional Repository; a link can be found in the daily list (http://www-int.imf.org/depts/sec/services/eb/dailydocumentsfull.htm) for the issuance date shown above.

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INTERNATIONAL MONETARY FUND

GABON

Staff Report for the 2008 Article IV Consultation

Prepared by the Staff Representatives for the 2008 Consultation with Gabon

Approved by David Nellor and Alan MacArthur

July 8, 2008

- **Mission:** March 26–April 8 in Libreville and June 2–6 in Washington. The mission met with Prime Minister Eyeghé Ndong, Finance Minister Paul Toungui, Minister of Planning Richard Onouviet, BEAC National Director Hervé Nze-Nong, and other senior officials. The mission also met with representatives of the business and donor community and issued a press statement.
- **Staff Team:** Mr. Briançon (head), Mr. Srour, Mr. Iossifov (all AFR), Ms. Eble (FAD), Ms. Martin (PDR), Mr. Papadacci (STA), and Mr. Thiam (resident representative). World Bank staff participated in meetings.
- **Stand-By Arrangement (SBA):** The Executive Board approved a three-year SBA for SDR 77.15 million (50 percent of quota) on May 7, 2007, and completed the first review on December 19. The authorities intend to treat the SBA as precautionary.
- **In concluding the 2006 Article IV consultation** Executive Directors commended the authorities for stabilizing the economy but called for a major fiscal tightening to bring the budget to its long-term sustainable path. Directors stressed the need to diversify the economy, promote private investment, develop microfinance institutions, and improve governance. Those recommendations form the basis of the SBA-supported program.
- **Exchange Regime:** Gabon is a member of the Central African Economic and Monetary Community (CEMAC). The regional currency, the CFA franc, is pegged to the euro. Gabon has accepted the obligations of Article VIII, Section 2, 3 and 4 of the IMF Articles of Agreement.
- **Gabon has subscribed to the General Data Dissemination System (GDDS).** While data are adequate for surveillance purposes, staff analysis was affected by the timeliness and coverage of fiscal data, poor quality balance of payments data, and limited information on labor costs and productivity. Publication of the statistical annex has been discontinued because, with Fund technical assistance, Gabon has posted most data on the Internet (www.stat-gabon.ga/Home/Index1.htm).

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EXECUTIVE SUMMARY

Economic growth performance has been sound. Growth in 2007 was robust and broad-based, and the short-term outlook is favorable, supported by high commodity prices and domestic demand. Inflation rose to 5.9 percent at end-2007 and 3.6 percent in 2008. The projected decline is attributable largely to the freezing of fuel prices and temporary suspension of customs duties and value-added tax on a few imported food items in April 2008.

Fiscal performance has been weaker than expected. Fuel subsidies were higher than anticipated by 0.7 percentage points of non-oil GDP because fuel prices were not increased owing to social tensions, while weak budgetary controls led to overruns in other current spending. As a result, fiscal performance since late 2007 has fallen short of its goals—non-oil primary deficit amounted to 11.3 percent of non-oil GDP, compared with a target of 11.6 percent of non-oil GDP; and the 2008 fiscal target is unlikely to be met, in spite of cuts in non-social spending. The authorities' revised fiscal objectives are reflected in the medium-term macroeconomic framework in this paper.

Against this background, discussions on the authorities' reform program, supported by a SBA, are continuing albeit delayed because of the developments noted.

In December 2007, Gabon for the first time issued a US$1 billion Eurobond and in January 2008 a bond on the CEMAC market. Proceeds were used to prepay most of its debt to Paris Club members.

Staff and authorities agreed on the main macroeconomic policy issues facing Gabon:

- **Pursuing fiscal consolidation and building up government savings are vital** to long-term fiscal sustainability as oil production dwindles and to limiting vulnerability to oil price volatility.

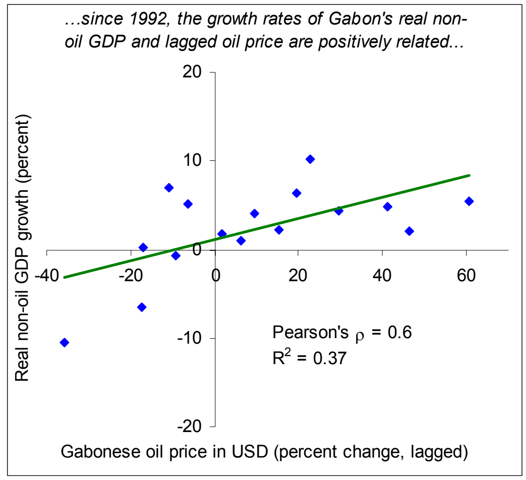
- **Better public financial management is essential** to contain and improve the quality of spending and free resources for infrastructure and social outlays.

- **Non-oil growth could be raised** by implementing competitiveness-enhancing reforms, improving the business climate, and deepening financial intermediation.

- **The real effective exchange rate in Gabon is broadly in line with its long-run equilibrium**

I. Introduction

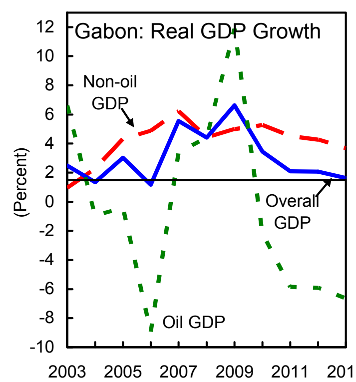
1. **Oil production over the last 40 years has transformed Gabon into a middle-income country, but income inequality is high and traditional economic sectors are stagnant.** Gabon has the highest PPP per capita GDP in Africa but ranks low among middle-income countries on human development indicators. The richest quintile of the population receives half of national income, yet one-third live in poverty. Oil revenue channeled through government spending is the main driver of real non-oil GDP growth, but its volatility has caused boom and bust cycles that have been exacerbated by rapidly rising and downwardly inflexible wages. Non-oil growth has averaged only 2.7 percent for the last decade; agricultural production has stagnated.



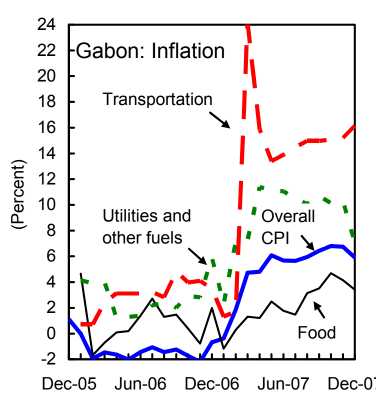
2. **Gabon has enjoyed a stable political climate.** Elections for the Presidency, the Parliament, and local governments since 2005 have kept the political environment unchanged. Next elections are scheduled for 2011.

II. Recent Developments

3. **Gabon enjoyed a broad-based expansion of non-oil activities in 2006 and 2007,** largely driven by high world prices for manganese, and timber, and by domestic demand (Tables 1 and 2). Real non-oil GDP growth has averaged 5.5 percent in 2006–07, twice the average of the past 10 years. Oil production recovered in 2007 as new marginal fields came on stream.

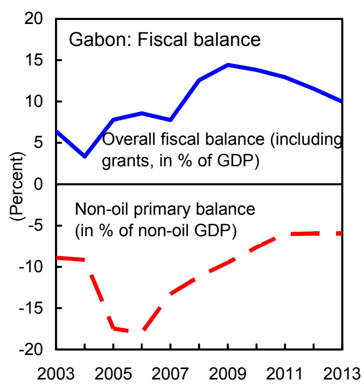


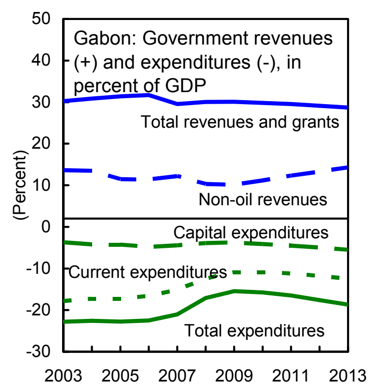
4. **Year-end inflation rose to 5.9 percent in 2007 after falling slightly in 2006.** This was due to demand pressures resulting from a fiscal policy that was more expansionary than targeted, a large civil service pay hike at the end of 2006, and increased fuel prices (26 percent in March 2007). Excluding transportation and food prices, inflation in 2007 was 3 percent.



5. **Faced with rising social tensions, in April 2008 the government announced measures to contain food price increases.** It suspended for six months import duties, value-added tax, and fees charged by public entities on milk, flour, rice, cooking oil, and fish; it also capped profit margins on rice and flour sales and increased subsidies to the domestic flour industry and on diesel fuel for the fishing sector. The measures, estimated by the government to cost 0.2 percent of non-oil GDP, replace price controls imposed from September 2007 to March 2008.

6. **Fiscal policy was tightened by less than anticipated in 2007 and early 2008 (see Box 1).** The non-oil primary deficit dropped from 18.0 percent of non-oil GDP in 2006 to 13.3 percent in 2007—1.7 percentage points less than expected (Tables 3 and 4). This reflected slow growth in non-oil revenue and an overrun on all non-wage spending in the last quarter. At end-March 2008, the non-oil primary fiscal deficit was wider than projected by 1.0 percent of non-oil GDP due to a large shortfall on revenue from VAT and customs duties and overrun in current spending.





Box 1. Performance on the Program Supported by a Stand-By Arrangement

Several program targets were not met:

- Quantitative performance criteria at end-2007 and end-March 2008 on the non-oil primary deficit and net bank credit to the government were missed.
- Fuel prices have not been adjusted for price increases since last September, and the automatic price adjustment mechanism was not implemented at the end of April.
- Information included in the budget document was less comprehensive than envisaged under the performance criterion
- Four of the nine structural benchmarks had been implemented by June 2008.

However,

- The oil revenue model was completed by March 2008,

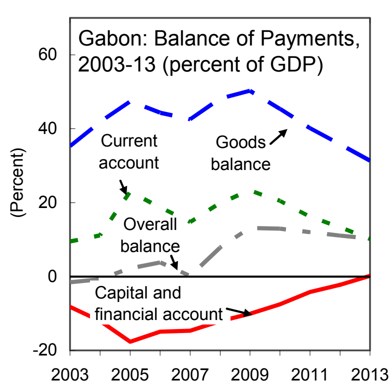
The program's fiscal target for 2008 is unlikely to be met, but the government is committed to meet its revised target for 2008 and the program medium-term objectives. Discussions on the program will resume in the fall if program implementation is strengthened.

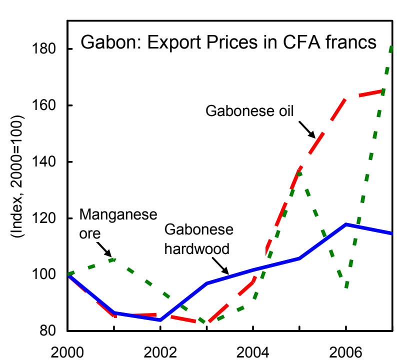
7. **The government share of oil revenue fell in 2007, despite increases in oil prices and output.** According to the authorities, it fell to 34 percent of total oil exports in 2007 from 39 percent in 2006 because of rising production costs, rapid amortization of new investment, and less favorable fiscal terms for the marginal fields where production rose. This narrowed the overall fiscal surplus more than expected. Furthermore, government savings and the decline in net bank credit to the government were minimal because the government paid down domestic debt that it had only recently recognized or assumed from public enterprises.

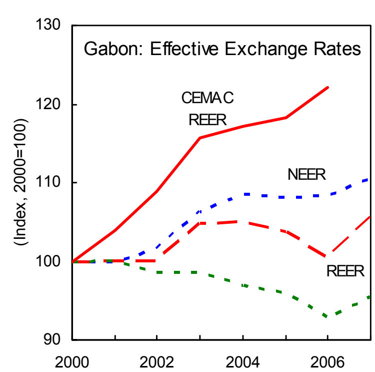
8. **The regional central bank (BEAC) mopped up excess bank liquidity to slow credit growth in 2007.** Over the past three years banks had recycled deposits derived from oil revenue by expanding credit to the private sector, which had contributed to demand pressures (Tables 6 and 7). The BEAC however succeeded in slowing credit growth in 2007 by gradually increasing reserve requirements on demand and time deposits and by authorizing banks in Gabon to participate in BEAC deposit auctions.

9. **The banking system in Gabon is sound and profitable but underdeveloped for a middle-income country (Table 8).** Though trending downward with the increase in lending to the private sector, the ratio of capital to risk-weighted assets remains above the 8 percent prudential norm. The quality of bank portfolios is adequate, and average bank return on equity is high at 20 percent.

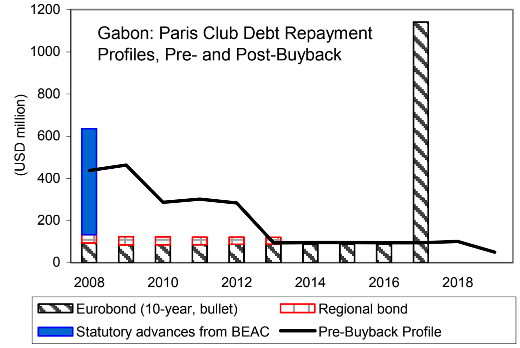
10. **High commodity prices have brought Gabon large external current account surpluses in recent years (Table 5).** Nevertheless, the surplus narrowed in 2007 as saving by the private sector decreased relative to investment and domestic demand was partly met by increased imports. The balance of payments surplus was reduced by private capital outflows, mostly from oil, timber, and mining companies. After having declined in the previous two years, the real effective exchange rate (REER) rose by 5.1 percent in 2007 as the US dollar weakened against the euro and inflation rose higher in Gabon than in trading partners.





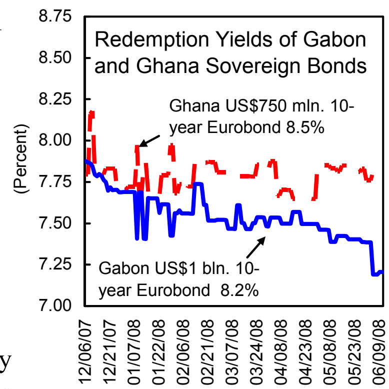


11. **Public external debt has fallen substantially in the past two years.** After large debt service payments in 2006–07, Gabon prepaid most of its Paris Club debt at a discount in January. This reduced the NPV of total public debt by 10.7 percent and improved external debt sustainability (Table 9 and Appendix I).



Box 2. Gabon's First Bond Issues

Gabon issued its first Eurobond in December 2007 (a US$1 billion 10-year bullet bond with an 8.2 percent coupon) to finance part of the prepayment of Paris Club debt. Demand was strong, thanks to Gabon's low external debt, high oil prices, and the prospect of prudent policies under the SBA. Credit-rating agencies gave Gabon a BB– rating. Since its issuance, the Eurobond has been trading well above face value.



To facilitate repayment of the Eurobond, the government is setting up a foreign investment account to be managed by the World Bank. The account will be used to buy back the Eurobond either on the secondary market or at maturity. To improve the external position, the authorities have also drafted a government assets and liability management.

To finance part of the Paris Club prepayment, Gabon also issued its first regional bond on the CEMAC market in January 2008 (a CFAF 81.5 billion six-year amortizing bond with a 5.5 coupon). The bond was slightly undersubscribed because of unfavorable taxation in the CEMAC. Trading on the secondary market is expected to start later in 2008.

III. Macroeconomic Outlook and Policy Discussions

12. **The government faces the double challenge of meeting the population demands in the short-term and keeping the economy stable over the long term.** The population has called on the government to do more to contain inflation and distribute the benefits of higher oil revenue through higher spending. At the same time, the government has to manage the transition from dependence on oil to a diversified economy. Without new discoveries oil output is expected to decline rapidly once the short- term impact of new fields and investment tapers off in 2010. Hence, fiscal consolidation is essential to make the non-oil primary fiscal deficit sustainable. Far-reaching reforms that enhance competitiveness are also urgently needed to increase non-oil GDP growth potential and hold per capita income steady. The balance of payments could then continue to record small surpluses as declining net

income from oil would be partly offset by increases in other exports and income from government savings.

13. **The short-term outlook for growth is favorable.** Real non-oil GDP growth is expected to stay above trend in 2008 (though below the unusually high 2007 level) as growth in the forestry and service sectors returns to long-term trends (Table 2). Oil output is projected to increase by 15 percent in 2008–10 as new oil fields come on stream and high oil prices make major investment in oil recovery profitable.

14. **Inflation is likely to temporarily abate in 2008.**[1] This is largely due to delays in adjusting fuel prices and temporary measures to contain food prices increases. Hence, the consumer price index could increase by less than 4 percent in spite of planned increases in water and electricity tariffs (15 percent over 18 months). Inflation is likely to rise again to 6 percent in 2009, if, as expected, fuel prices are adjusted and the temporary measures lifted. Staff urged the authorities to implement the fuel price mechanism now and replace the suspension of food import taxes by better targeted measures. This could be achieved by rapidly completing the survey of low-income households and designing measures to assist them. More competition and liberalization of domestic and international trade would also help moderate price pressures considerably.

15. **The main risks to the forecast are a drop in oil prices, increasing domestic pressure to ease fiscal policy, and rising inflation.** A drop in oil prices and government revenue would push down domestic demand and real non-oil GDP. Fiscal policy may stay expansionary due to poor budget controls and social pressure to raise spending as oil revenues rise. In turn, this is likely to push up inflation. Conversely, non-oil growth could be higher than projected if major road construction and mining projects start before year-end.

A. Macroeconomic Stability

16. **Gabon's competitiveness has been stable for the past few years, and the REER is consistent with economic stability (Box 3).** This confirms recent studies for the CEMAC which concluded that the REER was broadly in line with fundamentals.[2] Between 2000 and 2007, the REER appreciated by 5.6 percent, while the improvement in Gabon's terms of trade led to a larger appreciation of its equilibrium REER. However, with oil production declining, macro-balance analysis using a current account target consistent with the permanent income hypothesis suggests that the current REER is broadly in line with its long-run equilibrium.

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[1] No monthly inflation data have been published since January 2008 because the authorities are reviewing the methodology for the consumer price index. Publication of the index is expected to be resumed in the coming weeks.

[2] See SM/02/98 and SM/07/211.

Box. 3. Estimations of the Real Effective Exchange Rate

The REER was estimated by three methods, all of them indicating that it was broadly consistent with fundamentals at end 2007.[3] First, the price ratio of tradables and nontradables has improved since 2000, confirming Gabon's improved external competitiveness over the same period.

Second, recent studies concluded that the REER for the CEMAC was broadly in line with its fundamental values. Estimating Gabon's REER with the coefficients estimated for the CEMAC shows that the REER was 6.8 percent below its equilibrium level. This reflected an appreciation of the equilibrium exchange rate due to rising oil prices and relatively low inflation in Gabon.

Gabon: Indicators of Competitiveness

	1995	2000	2005	2006	2007
Indicators based on relative price indices	(Index, 2000=100)				
REER, CPI-based[1,2]	114.2	100	103.8	100.5	105.6
Equilibrium REER[3]	108.8	100	114.1	119.2	123.3
Ratio of prices of tradables to nontradables[4]	54.4	100	127.0	142.6	141.6
Indicators based on current account flows	(Percent)				
Market share of Gabon's non-oil exports in world's non-oil imports	0.013	0.011	0.010	0.010	0.010
Share of imports in domestic demand[2]	46.8	51.3	44.0	47.8	50.4
Non-oil exports as percent of non-oil GDP	20.3	24.6	18.1	20.2	21.7
	(Index, 2000=100)				
Volume of non-oil exports of goods (2000=100)	74.4	100	80.5	91.3	112.8

Sources: IMF, national authorities, and IMF staff estimates.

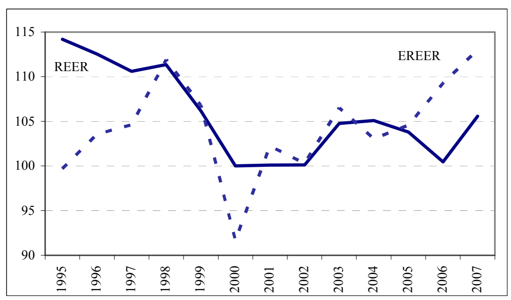
Unless otherwise noted, an increase in indicators implies an improvement in competitiveness.

[1] Based on a definition of the nominal exchange rate in terms of foreign currency units per unit of the domestic currency.

[2] An increase in the indicator implies a deterioration of competitiveness.

[3] Estimated by applying the coefficients of the model of the equilibrium REER for the CEMAC region, presented in the 2007 CEMAC staff report, to Gabonese data (with a country-specific intercept).

[4] Ratio of export price index to tertiary GDP deflator (both, 2000=100).



Source: INS, WEO and Staff Calculations.

Third, estimates of the REER based on the macrobalance approach and an assessment of external sustainability broadly confirm these findings. The estimated deviation of the REER from its equilibrium is in a range from -2.6 to 3.1 percent.

Current Account Norm (percent of GDP)		REER Misalignment (percent) 1	2
From CGER coeffs.	10.6	3.1	1.7
PIH Norm 2013	10.1	-0.1	-0.1
Average of PIH Norm 2008-30	9.7	-2.6	-1.4

[1] *Estimate with Marquez (1990) OLS Trade Elasticities*

[2] *Estimate with Marquez (1990) Band Spectrum Trade Elasticities*

[3] See accompanying selected issues paper "External Competitiveness and Diversification in Gabon".

17. **External debt (34.9 percent of GDP at the end of 2007, Table 9) is sustainable given current commodity price trends**.[4] Nonetheless, the volatility of international oil prices calls for prudent management of external debt. Foreign-funded projects need to be carefully vetted to ensure that they yield high returns and are consistent with PRSP priorities, and oil revenue should be used to pay down expensive debt.[5] Domestic debt—estimated at 8.6 percent of GDP—has not fallen as expected because the government took over the debt obligations of public enterprises in the context of their privatization or restructuring, and recognizing liabilities to public utilities companies. As the latter is due to water, electricity, and telephone consumption above the budgeted amount, staff urged the authorities to increase budget allocation for public utilities and effect payments on amounts actually consumed. [6]

Fiscal policy and public financial management

18. **The authorities are committed to strengthen policy and attain a sustainable fiscal balance in the face of dwindling oil reserves.** The strategy is to enable Gabon to accumulate financial assets yielding income high enough to sustain government spending in the post-oil period. After reviewing the assumptions underpinning estimates of a sustainable fiscal deficit, staff and authorities concluded that the current target—reducing the primary non-oil fiscal deficit to 6 percent of non-oil GDP by 2011—is still appropriate. This is because the positive impact of higher oil prices on the sustainable deficit is broadly offset by other factors. These include the weakness of the U.S. dollar, the fall in the government share of oil revenue and a lower net asset position of the government. Holding to the fiscal target and the adjustment path are also considered important to keep the government program credible.

19. **For the short-term, the authorities recognize the need to reverse recent trends and tighten policy.** However, in view of the current social environment, they do not intend to increase fuel prices before 2009. Instead, they plan to cut budgeted nonsocial spending by 0.3 percent of non-oil GDP in 2008 to partly offset higher fuel subsidies (3.3 percent of non-oil GDP instead of 1.8 percent) and contain the non-oil primary deficit to 11.2 percent, compared with 10 percent initially targeted. For 2009, the authorities intend to increase fuel prices sufficiently to cut subsidies to 2.5 percent of non-oil GDP, which should help reduce the non-oil primary deficit to 9.5 percent of non-oil GDP. The impact of higher fuel prices on

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[4] See Appendix I for the long-term DSA.

[5] The International Centre for Settlement of Investment Disputes recently ruled that Gabon had to pay US$250 million in damages to a foreign company for terminating the management contract for the Transgabonese railroad. The government is reviewing the ruling. The amount is currently excluded from the debt stock and debt service.

[6] The domestic debt ratio is very low and unlikely to rise significantly under plausible scenarios. Hence, Appendix I only includes an external DSA.

the poor is to be cushioned by a package of well-targeted social measures. Staff emphasized that achieving the medium-term deficit target of 6 percent by 2011 under such a scenario would require a persistent fiscal effort, including avoiding spending overruns as in the past.

20. **The authorities agreed that government services can be greatly improved even if spending is reduced.** Comparison with neighboring countries suggests that Gabon's spending, especially in social sectors, is relatively inefficient.[7] Discussed measures include

- Accelerating preparation of PRSP-based rolling medium-term expenditure frameworks.
- Better monitoring of budget execution at the technical and ministerial levels to respect ceilings on budget appropriations.
- Containing the wage bill to a level commensurate with the level of non-oil revenue by implementing rigorous recruitment and wage policies.
- Subsidizing poverty-reducing programs rather than broad fuel subsidies and tax exemptions on food imports.
- Re-examining the budget appropriations for nonsocial sectors.
- Improving the quality of investment.

21. **Staff pointed out that quasi-fiscal activities and contingent fiscal liabilities could undermine adjustment.** To address medium-term fiscal risks and entrench debt sustainability, they suggested the following:

- Restore the financial viability of the social security system and ensure that the new health insurance scheme is self-financed.
- Avoid government guarantees in contracts signed by public enterprises.
- Raise budget appropriations to cover the cost of public utility bills and avoid recurrent recognition of debt for unbudgeted amounts.
- Allow timely adjustment of tariffs so that public enterprises can operate on a commercial basis and cover their costs.

22. **The authorities have made commendable progress in strengthening revenue administration and transparency.** The development of an oil revenue model by field and contract makes easier administration and estimation of current and projected oil receipts,

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[7] See accompanying selected issues paper "Assessment of Social Expenditures Efficiency".

including receipts in kind. In particular, the model can be used for reconciling Treasury information and supplying more detailed information to the EITI. Gabon's third 2006 EITI report, issued in March 2008, contains comprehensive information from most oil companies and the government and extends coverage to the mining sector—though differences amounting to US$63.4 million remain between government and oil company data. The authorities indicated that the differences partly reflected differences in the exchange rates used in converting dollar revenue into CFA francs. Scope for further improvements includes reporting profit oil in kind and reconciling main differences. Transparency would further benefit from a reconciliation of the EITI report with data reported to Parliament.

23. **Meanwhile, the authorities continue their efforts to combat money laundering and the financing of terrorism, as well as illicit enrichment.** The National Financial Intelligence Unit (ANIF) is now operational, and 3 of 30 cases are ready for court hearings. The mission urged the National Commission Against Illicit Enrichment (CNLEIL) to investigate and impose sanctions on senior government officials that did not report their assets by the April 2007 deadline and to improve coordination with ANIF.

B. Promoting Growth and Reducing Poverty

24. **The authorities are keenly aware that maintaining real per capita income and reducing poverty in the face of depleting oil reserves are among the most difficult challenges confronting the country.** With oil production falling, average annual non-oil GDP growth has to remain over 5 percent to hold real per capita income steady in the long term. The authorities agreed that mining projects will probably have a major impact on growth, but alone they are unlikely to offset the impact of falling oil revenue. They also noted that the recent real appreciation of the CFA franc was hurting development of the non-oil sector. While agreeing, staff argued that the emphasis should be on sustaining the high growth recorded the past two years by unlocking the potential of the private sector.

Promoting private sector development

25. **The authorities concurred that the key to unlocking Gabon's growth potential is creating an environment conducive to private sector activity**. While no one indicator accurately measures the business climate, Gabon has generally had a low rank or score on many of them.[8] For the authorities, the first priority is to build essential infrastructure, especially for multimodal transportation and telecommunication networks and for energy and water supply. They have also started implementing recommendations of several studies and a seminar held in Libreville last year to improve the business climate,[9] including strengthening the one-stop window for investors and streamlining administrative procedures. Progress on

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[8] See accompanying selected issues paper "External Competitiveness and Diversification in Gabon".

[9] Studies by the African Development Bank (2007) and the Foreign Investment Advisory Service (2004)

other recommendations, such as facilitating landownership and improving labor laws, has however been limited.

26. **The authorities agree with the need to remove barriers to competition.** The program of privatization and restructuring of public enterprises is almost completed but did not yield the hoped for results. The staff pointed out that privatization did not lead to increased competition, investment, and output partly because the government granted protections to the new firms, including monopoly power, tax exemptions, and import protections. The authorities, however, noted that without granting those advantages many firms would not have been privatized and many jobs would have been lost. They indicated that, together with other CEMAC members, they would assess the impact of privatization on the regional economy, and ensure that new firms fulfill their contractual obligations, especially for new investment. Staff encouraged the government to open most sectors to competition faster.

27. **The authorities are working within the CEMAC on liberalizing trade.** Discussions are focusing on dropping the top rate of the common external tariff (30 percent) and removing all nontariff barriers, which would bring Gabon in line with its WTO commitments. They however expressed concerns that firms were reluctant to invest in Gabon partly because a single CEMAC market was not yet a reality, since inter-country barriers continue to impede free circulation of goods and persons. Gabon has no interim Economic Partnership Agreement with the EU, and exports to the EU are now subject to the Generalized System of Preferences regime; discussions with the EU continue at the level of the CEMAC.

28. **The mission also reviewed major mining projects expected to come on stream in the next few years.** The government and the foreign partner for the Belinga iron ore project recently completed negotiations on the terms of the mining license granted in December 2007.[10] Staff expressed concerns about the broad tax exemptions granted for 25 years and the risk related to the ability of the joint venture to service its debt.[11] It urged the authorities to undertake cost-benefit and economic impact analyses of the project, ensure that all laws are adhered to, and limit contingent fiscal risks. Other projects are underway in the manganese sector, where production could increase by 80 percent over the next five years.

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[10] A joint venture between a Chinese consortium (75 percent share) and the government (25 percent share) is to exploit the largest undeveloped iron ore deposit in the world. The project comprises development of the mine site, a hydroelectric dam, a railroad, and a port at a total cost of up to US$5 billion.

[11] If the joint-venture is unable to pay its debt, the terms of the license are to be renegotiated.

Financial sector development[12]

29. **The authorities agreed that a healthy financial sector is crucial to development of the non-oil economy**. Staff encouraged them to work with other CEMAC members on implementing the recommendations of the 2006 FSAP for the CEMAC region, especially improving the legal framework of the credit environment. Though concurring, the authorities commented that legal reforms take time. Staff pointed out that limiting state involvement in the banking sector would also foster competition and alleviate moral hazard. This could be achieved by (1) reducing the government stake in banks to avoid the perception of an implicit state guarantee; (2) transferring government deposits in commercial banks to the BEAC to drain excess bank liquidity; and (3) abolishing the requirement that banks invest 10 percent of deposits in equipment bonds. The authorities generally agreed with staff's views and indicated that they plan to replace central bank advances and equipment bonds by treasury bills issued on the regional market.

30. **The authorities emphasized the need to provide bank services to a larger share of the population.** They intend to promote development of microfinance institutions and noted that the Central Deposit Holding Agency (ACCD) could provide deposit services to segments of the population that are underserved by banks.[13] Staff agreed on the need to speed up realization of the 2006 national microfinance strategy but expressed serious reservations about the ACCD competing with commercial banks by holding personal deposits, even though it will not lend. This could slow development of the financial sector and entail governance and operational risks, since the ACCD is not supervised by the regional bank regulator (COBAC). To mitigate the risks, staff urged that ACCD adhere to the same accounting and reporting requirements as commercial banks.

IV. Staff Appraisal

31. **The authorities' reiterated commitment to meet medium-term program objectives needs to be bolstered by the implementation of strong corrective measures.** These include reversing the recent loosening of fiscal policy, containing the non-oil primary fiscal deficit, and increasing fiscal savings. Significant progress in these areas is necessary to bring the program back on track and complete discussions for the second review of the program supported by a Stand-By arrangement.

32. **In spite of the fiscal difficulties Gabon continues to enjoy robust non-oil growth,** thanks to high oil and other commodity prices and domestic demand. While recognizing the need to deal with the impact of surging food and fuel prices on the poor, staff urge the authorities to implement better targeted measures to reduce fuel subsidies and replace the

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[12] See accompanying selected issues paper "Update on Financial Sector Developments".

[13] The Treasury created the ACCD in 2007 to manage all government deposits and payments. This is a step toward a centralized treasury account at the BEAC.

suspended duties and VAT on food imports. Removing barriers to domestic and international trade would also reduce transactions costs.

33. **Gabon's successful bond issues show that investors have confidence that the country can implement credible macroeconomic policies.** By enabling Gabon to prepay most of its Paris Club debt, the bonds helped improve Gabon's debt profile, lower its external debt, and reduce the economy's vulnerability to oil price volatility. The development and implementation of a government assets and liabilities management strategy would further strengthen Gabon's external position. Because the bond issues also greatly increase international investor scrutiny of Gabon's economic development, implementation of strong policies, as reflected in the Fund–supported program, is essential so that Gabon can retain its favorable rating.

34. **As oil reserves dwindle, the staff and the authorities concur that Gabon's main challenge is to meet pressing infrastructural and social needs while ensuring sustained broad-based growth.** The government must therefore reduce the non-oil primary fiscal deficit to a sustainable level by containing current spending and better managing domestic and external debt. Meeting the challenge would enable the government to accumulate enough financial assets to cover future fiscal deficits.

35. **Improving public financial management will be essential to lower spending while increasing social service delivery and public investment.** To do this, Gabon should prepare medium-term expenditure plans by sector consistent with the overall macroeconomic framework and Gabon's PRSP; it must also ameliorate inefficiency in the tax system.

36. **The recent strengthening of REER is consistent with the appreciation of the equilibrium exchange rate,** but has hurt the competitiveness of the non-oil tradable sector.

37. **To raise economic growth and reduce poverty, the economy and the business climate must become more competitive to unlock the potential of the private sector.** The needs are well-known: build infrastructure, especially roads and energy; finish restructuring and privatizing public enterprises; open most sectors to competition; streamline commercial law; facilitate land ownership; and encourage development of a regional financial market.

38. **Good governance and acceptance of accountability are essential to ensure efficient use of public resources.** The recent publication of Gabon's third EITI report and the development of an oil revenue model are steps in the right direction. Nevertheless, the authorities should continue their efforts to narrow the differences between government and oil company data and improve the EITI report. The new oil model should be an effective tool in this regard. The CNLEIL should impose sanctions for nonobservance of financial disclosure requirements.

39. It is proposed that the next Article IV consultation follow the consultation cycle in accordance with the decision on consultation cycles approved on July 15, 2002.

Table 1. Gabon: Selected Economic Indicators, 2006–13

	2006	2007		2008		2009	2010	2011	2012	2013
		CR 07/174 [1]	Actual	CR 08/24 [1]	Proj.	Projections				
	(Annual percent change, unless otherwise indicated)									
Real sector										
GDP at constant prices	1.2	5.6	5.6	4.2	4.4	6.6	3.4	2.1	2.1	1.6
Oil	-9.0	5.3	3.4	2.4	4.4	11.9	-2.2	-5.8	-5.9	-6.6
Non-oil	4.9	5.7	6.2	4.7	4.4	5.0	5.3	4.5	4.3	3.7
GDP at current prices	9.2	2.3	11.1	9.3	28.7	14.5	-0.2	-1.9	-1.7	-1.5
GDP deflator	7.9	-3.1	5.2	4.9	23.3	7.4	-3.5	-3.9	-3.7	-3.0
Oil	19.3	-11.6	4.1	8.2	38.3	6.5	-4.1	-3.8	-3.7	-3.5
Non-oil	4.8	6.1	8.0	3.0	8.3	3.4	2.8	2.6	1.8	2.2
Consumer prices[1]										
Yearly average	-1.4	5.5	5.0	3.0	3.8	5.9	4.2	3.3	2.5	2.5
End of period	-0.7	4.5	5.9	2.7	3.6	6.0	4.0	3.0	2.5	2.5
External sector										
Exports, f.o.b. (CFA francs)	7.7	-2.1	9.7	10.8	39.7	15.7	-5.5	-8.3	-7.8	-8.1
Of which: oil	5.3	-4.7	7.2	11.3	42.1	19.3	-6.9	-10.3	-10.3	-11.0
Imports, f.o.b. (CFA francs)	24.1	15.1	17.7	1.8	26.4	5.4	7.4	3.8	1.9	1.6
Export volume	-8.1	5.5	3.4	3.1	0.2	10.7	-2.8	-7.1	-6.4	-6.9
Import volume	15.4	16.4	15.7	5.5	15.3	5.1	9.1	4.9	2.8	2.6
Terms of trade (deterioration= –)	8.9	-6.1	4.4	11.4	27.2	4.3	-1.3	-0.2	-0.6	-0.4
Nominal effective exchange rate (depreciation = –	0.2	...	2.1	...	...	...	...	...	...	...
Real effective exchange rate (depreciation = –) [1]	-3.2	...	5.1	...	...	...	...	...	...	...
Central government finance										
Total revenue	10.5	0.4	3.4	7.3	30.5	15.0	-1.1	-2.8	-3.1	-2.9
Oil revenue	11.7	-7.4	-5.4	7.0	46.1	16.4	-6.7	-9.8	-9.6	-10.2
Non-oil revenue	8.5	14.4	19.0	7.7	8.6	12.3	9.9	8.9	6.1	5.7
Total expenditure	7.8	-4.0	3.9	1.4	4.7	3.5	1.8	2.5	4.9	4.9
Current	4.8	-6.2	1.2	-3.3	6.1	0.4	-0.5	0.9	3.7	3.8
Capital	23.5	-0.5	3.3	18.9	12.6	10.7	9.0	7.3	8.7	8.5
Money and credit										
Credit to the economy	21.3	20.5	17.5	13.5	11.7	10.3	9.9	8.6	7.4	7.1
Broad money	17.4	14.1	7.2	10.3	11.0	8.6	8.2	7.2	6.1	6.0
Velocity of broad money (relative to non-oil GDP)	2.63	2.50	2.65	2.53	2.70	2.70	2.70	2.70	2.70	2.70
	(Percent of GDP, unless otherwise indicated)									
Gross national savings	43.2	…	40.9	…	44.7	46.8	46.3	44.0	42.3	40.5
Government	15.1	…	14.4	…	17.5	19.1	18.9	18.3	17.3	16.2
Private sector	28.1	…	26.5	…	27.2	27.7	27.4	25.7	25.0	24.3
Gross fixed investment	24.5	…	26.2	…	24.7	23.6	25.9	27.8	29.0	30.4
Government	4.8	…	4.5	…	3.9	3.8	4.1	4.5	5.0	5.5
Private sector	19.7	…	21.7	…	20.9	19.8	21.7	23.3	24.0	24.9
Central government										
Non-oil primary balance (percent of non-oil GDP)	-18.0	-11.6	-13.3	-10.0	-11.2	-9.5	-7.6	-6.0	-6.0	-6.0
Overall balance (cash basis)	8.6	9.7	7.8	11.4	12.6	14.4	13.8	12.9	11.6	10.0
Domestic bank financing	-1.9	-3.3	-8.1	-6.3	-0.6	-12.7	-12.5	-11.7	-10.8	-10.0
Net external financing	-3.4	-3.9	4.4	-3.2	-11.2	-0.4	-0.2	-0.3	-0.1	0.2
External current account balance (with official transf	18.7	16.9	14.8	16.1	19.9	23.2	20.5	16.2	13.3	10.1
External public debt (including to the Fund)[2]	32.5	27.6	34.9	20.9	13.8	11.7	11.5	10.9	10.4	10.5
Total gross public debt [2]	44.2	36.7	44.5	26.6	22.0	17.2	15.7	13.8	12.4	12.1
	(CFA francs billion, unless otherwise indicated)									
Memorandum items										
Nominal GDP	4,992	5106.0	5,544	5,828	7,135	8,171	8,158	8,004	7,867	7,752
Nominal non-oil GDP	2,421	2713.0	2,777	2,931	3,139	3,408	3,689	3,954	4,197	4,447
National oil price (thousand CFA francs per barrel)	31.5	28.6	33.3	33.9	47.6	50.4	49.1	48.6	47.9	47.3

Source: Gabonese authorities, and IMF staff estimates and projections.

Notes: Country Report 07/174 is the Board document for the SBA issued in May 2007. Country Report 08/24 is the Board document for the first of the SBA issued in January 2008.

[1] Based on the new Harmonized Consumer Price Index with weights derived from Gabon's 2005 household expenditure survey. Historical data those reported in the original program document (Country Report 07/174).

[2] As a result of the finalization of the Paris Club debt buyback, which was financed with the issuance of an US$ Eurobond in December 2007 an regional bond in January 2008 and was carried out in January 2008, external and total public debt estimates are higher than programmed in 2007 and lower than programed in 2008.

Table 2. Gabon: Summary of Real Sector Developments, 2006–13

	2006	2007	2008	2009	2010	2011	2012	2013
	Est.	Prel.	Projections					
Real GDP by sector of origin								
	(Annual percentage change in constant 1991 prices)							
GDP at market prices	1.2	5.6	4.4	6.6	3.4	2.1	2.1	1.6
of which: Non-oil GDP	4.9	6.2	4.4	5.0	5.3	4.5	4.3	3.7
Import duties and VAT	15.3	9.1	-2.3	8.4	6.7	7.0	4.0	3.0
GDP at factor cost	0.5	5.4	4.8	6.5	3.3	1.8	2.0	1.6
of which: Non-oil GDP	4.2	6.0	4.9	4.8	5.2	4.3	4.3	3.7
Primary sector	-5.8	3.4	2.5	9.9	0.0	-3.3	-2.7	-3.1
Non-oil	4.3	6.6	4.8	4.8	7.8	5.8	5.6	4.4
Oil	-10.4	1.7	1.3	12.8	-4.1	-8.6	-8.3	-9.1
Secondary sector	1.0	6.1	8.2	6.6	5.7	4.1	3.4	2.8
Tertiary sector	4.9	6.4	4.9	4.5	4.4	4.0	4.0	3.6
Nominal GDP by sector of origin								
	(Billions of CFA francs)							
GDP at market prices	4992	5544	7135	8171	8158	8004	7867	7752
of which: Non-oil GDP	2421	2777	3139	3408	3689	3954	4197	4447
	(Percent of nominal GDP)							
GDP at market prices	100	100	100	100	100	100	100	100
of which: Non-oil GDP	49	50	44	42	45	49	53	57
Import duties and VAT	6	6	5	5	5	6	6	7
Primary sector	58	57	64	65	62	58	55	51
Non-oil	7	8	9	8	8	9	9	10
Oil	50	49	55	57	54	49	45	41
Secondary sector	8	8	7	7	8	8	9	10
Tertiary sector	28	29	24	23	25	28	30	32
Nominal GDP by use of resources								
	(Billions of CFA francs at current prices)							
GDP at market prices	4992	5544	7135	8171	8158	8004	7867	7752
Net factor income from abroad	-580	-642	-928	-1069	-876	-758	-666	-556
Gross national product	4412	4902	6207	7101	7282	7245	7201	7196
Gross disposable income	4287	4764	6034	6899	7081	7050	7011	7010
Saving-investment balance	935	818	1421	1898	1671	1295	1046	784
National saving	2159	2269	3187	3826	3779	3521	3325	3142
Gross capital formation	1224	1451	1766	1928	2109	2226	2279	2358
External current account	935	818	1421	1898	1671	1295	1046	784
	(Percent of GDP)							
GDP at market prices	100	100	100	100	100	100	100	100
Net factor income from abroad	-12	-12	-13	-13	-11	-9	-8	-7
Gross national product	88	88	87	87	89	91	92	93
Gross disposable income	86	86	85	84	87	88	89	90
Saving-investment balance	19	15	20	23	20	16	13	10
National saving	43	41	45	47	46	44	42	41
Gross capital formation	25	26	25	24	26	28	29	30
External current account	19	15	20	23	20	16	13	10

Source: Gabonese authorities, and IMF staff estimates and projections.

Table 3. Gabon: Central Government Accounts, 2006–13

(Billion CFA francs)

	2006	2007		2008		2009	2010	2011	2012	2013
		CR 07/174 [1]	Actual	CR 08/24 [1]	Proj.			Proj.		
Total revenue and grants	1583	1595	1636	1813	2142	2460	2432	2364	2292	2225
Revenue	1583	1590	1636	1807	2136	2456	2428	2360	2288	2221
Oil revenue	1013	938	959	1076	1400	1629	1520	1370	1238	1112
Non-oil revenue	569.7	651.5	677.8	731.2	735.9	826.8	908.7	989.5	1049.7	1109.3
Tax revenue	513.5	587.0	605.7	653.0	656.4	740.5	815.3	889.5	943.5	996.7
Taxes on income, profits, and capital gains	159.4	182.8	193.5	219.7	231.5	257.8	284.3	307.3	326.3	345.7
Domestic taxes on goods and services	113.7	131.8	130.3	133.6	124.9	152.2	168.7	183.8	194.3	205.0
Value-added tax	78.4	94.0	92.4	94.2	82.1	105.1	118.7	131.2	139.3	147.6
Other	35.3	37.8	37.8	39.4	42.8	47.2	50.0	52.5	55.0	57.4
Taxes on international trade and transactions	240.4	272.4	281.9	299.7	300.0	330.5	362.4	398.4	422.8	446.0
Other non-oil revenue	56.2	64.5	72.1	78.2	79.5	86.3	93.4	100.1	106.2	112.5
Grants	0.0	5.4	0.2	6.0	6.0	4.0	4.0	4.0	4.0	4.0
Total expenditure and net lending	1122.1	1076.8	1165.6	1125.3	1220.1	1262.8	1285.9	1318.5	1382.4	1450.6
Current expenditure	827.5	776.3	837.8	789.1	888.9	892.0	887.3	895.4	928.2	963.1
Wages and salaries	252.4	294.0	301.8	311.8	317.3	336.0	350.1	368.3	377.6	397.7
Goods and services	167.2	180.2	190.4	182.7	190.1	194.6	213.4	227.4	241.3	255.7
Interest payments	116.6	105.8	118.8	95.5	126.8	109.0	91.9	86.0	78.5	72.0
Domestic	24.5	18.8	26.6	17.8	25.2	21.1	19.1	15.4	11.1	7.7
Foreign	92.2	87.0	92.2	77.7	101.6	87.9	72.8	70.6	67.4	64.2
Transfers and subsidies	291.3	196.2	226.8	199.1	254.7	252.4	231.9	213.8	230.8	237.8
Transfers	170.4	138.2	149.9	128.7	127.7	149.2	159.4	160.6	177.7	184.8
Subsidies	120.9	58.1	77.0	70.4	126.9	103.2	72.5	53.2	53.1	53.0
Fuel subsidies	102.1	34.6	54.4	51.5	102.3	86.6	59.9	47.3	47.2	47.1
Other subsidies	18.8	23.4	22.6	18.9	24.6	16.6	12.6	5.9	5.9	5.9
Capital expenditure	238.8	237.6	246.8	274.4	277.9	307.7	335.5	359.9	391.1	424.3
Foreign financed	48.8	42.6	48.2	68.0	71.6	86.5	88.4	94.7	100.5	107.0
Domestically financed	190.0	195.0	198.6	206.4	206.3	221.3	247.1	265.2	290.6	317.3
Net lending	0.0	0.0	9.7	0.0	-9.7	0.0	0.0	0.0	0.0	0.0
Road Fund (FER) and special funds	55.8	63.0	71.3	61.9	63.0	63.1	63.1	63.1	63.1	63.1
Change in arrears	-33.5	-21.0	-40.2	-26.0	-26.1	-18.7	-18.4	-10.0	0.0	0.0
Domestic arrears payments	-33.2	-21.0	-39.9	-26.0	-26.1	-18.7	-18.4	-10.0	0.0	0.0
External arrears (interest only)	-0.3	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	426.9	497.1	430.8	661.6	895.8	1178.4	1128.0	1035.3	909.4	774.3
Total financing	-426.9	-497.1	-430.8	-661.6	-895.8	-1178.4	-1128.0	-1035.3	-909.4	-774.3
Foreign borrowing (net)	-167.9	-197.6	243.7	-189.4	-801.3	-29.6	-13.7	-26.6	-11.2	18.3
Program financing	14.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project loans	48.8	42.6	48.2	68.0	71.6	86.5	88.4	94.7	100.5	107.0
International bond for Paris Club buyback	0.0	0.0	445.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization (-)	-232.5	-240.1	-252.1	-257.4	-1011.0	-124.2	-106.5	-126.2	-115.6	-90.5
Exceptional financing	1.2	0.0	2.4	0.0	138.0	8.1	4.4	4.9	3.9	1.7
Domestic borrowing (net)	-259.0	-299.5	-674.5	-472.2	-94.4	-1148.8	-1114.3	-1008.7	-898.1	-792.6
Banking system	-97.3	-151.6	-451.4	-369.6	-43.1	-1041.0	-1020.7	-938.3	-853.2	-778.2
Monetary authorities	-115.7	-93.8	30.2	-322.9	-506.4	-1027.9	-1008.6	-915.0	-830.1	-754.9
Deposit money banks	18.3	-57.7	-481.7	-37.0	463.2	-13.1	-12.1	-23.3	-23.1	-23.4
Non-bank sector	-161.7	-148.0	-223.0	-102.5	-51.3	-107.8	-93.6	-70.5	-44.9	-14.4
Memorandum item:										
Non-oil primary balance, including grants	-435.8	-314.1	-368.8	-292.6	-351.4	-323.0	-281.3	-239.0	-250.2	-265.3

Source: Gabonese authorities and IMF staff estimates and projections.

[1] Country Report 07/174 is the Board document for the SBA issued in May 2007. Country Report 08/24 is the Board document for the first review of the SBA issued in December 2007.

Table 4. Gabon: Central Government Accounts, 2006–13

(Percent of non-oil GDP)

	2006	2007		2008		2009	2010	2011	2012	2013
		CR 07/174 [1]	Actual	CR 08/24 [1]	Proj.			Proj.		
Total revenue and grants	65.4	58.8	58.9	61.8	68.2	72.2	65.9	59.8	54.6	50.0
Revenue	65.4	58.6	58.9	61.6	68.0	72.1	65.8	59.7	54.5	49.9
Oil revenue	41.8	34.6	34.5	36.7	44.6	47.8	41.2	34.7	29.5	25.0
Non-oil revenue	23.5	24.0	24.4	24.9	23.4	24.3	24.6	25.0	25.0	24.9
Tax revenue	21.2	21.6	21.8	22.3	20.9	21.7	22.1	22.5	22.5	22.4
Taxes on income, profits, and capital gains	6.6	6.7	7.0	7.5	7.4	7.6	7.7	7.8	7.8	7.8
Domestic taxes on goods and services	4.7	4.9	4.7	4.6	4.0	4.5	4.6	4.6	4.6	4.6
Value-added tax	3.2	3.5	3.3	3.2	2.6	3.1	3.2	3.3	3.3	3.3
Other	1.5	1.4	1.4	1.3	1.4	1.4	1.4	1.3	1.3	1.3
Taxes on international trade and transactions	9.9	10.0	10.2	10.2	9.6	9.7	9.8	10.1	10.1	10.0
Other non-oil revenue	2.3	2.4	2.6	2.7	2.5	2.5	2.5	2.5	2.5	2.5
Grants	0.0	0.2	0.0	0.2	0.2	0.1	0.1	0.1	0.1	0.1
Total expenditure and net lending	46.3	39.7	42.0	38.4	38.9	37.1	34.9	33.3	32.9	32.6
Current expenditure	34.2	28.6	30.2	26.9	28.3	26.2	24.1	22.6	22.1	21.7
Wages and salaries	10.4	10.8	10.9	10.6	10.1	9.9	9.5	9.3	9.0	8.9
Goods and services	6.9	6.6	6.9	6.2	6.1	5.7	5.8	5.8	5.8	5.8
Interest payments	4.8	3.9	4.3	3.3	4.0	3.2	2.5	2.2	1.9	1.6
Domestic	1.0	0.7	1.0	0.6	0.8	0.6	0.5	0.4	0.3	0.2
Foreign	3.8	3.2	3.3	2.7	3.2	2.6	2.0	1.8	1.6	1.4
Transfers and subsidies	12.0	7.2	8.2	6.8	8.1	7.4	6.3	5.4	5.5	5.3
Transfers	7.0	5.1	5.4	4.4	4.1	4.4	4.3	4.1	4.2	4.2
Subsidies	5.0	2.1	2.8	2.4	4.0	3.0	2.0	1.3	1.3	1.2
Fuel subsidies	4.2	1.3	2.0	1.8	3.3	2.5	1.6	1.2	1.1	1.1
Other subsidies	0.8	0.9	0.8	0.6	0.8	0.5	0.3	0.1	0.1	0.1
Capital expenditure	9.9	8.8	8.9	9.4	8.9	9.0	9.1	9.1	9.3	9.5
Foreign financed	2.0	1.6	1.7	2.3	2.3	2.5	2.4	2.4	2.4	2.4
Domestically financed	7.8	7.2	7.2	7.0	6.6	6.5	6.7	6.7	6.9	7.1
Net lending	0.0	0.0	0.3	0.0	-0.3	0.0	0.0	0.0	0.0	0.0
Road Fund (FER) and special funds	2.3	2.3	2.6	2.1	2.0	1.9	1.7	1.6	1.5	1.4
Change in arrears	-1.4	-0.8	-1.4	-0.9	-0.8	-0.5	-0.5	-0.3	0.0	0.0
Domestic arrears payments	-1.4	-0.8	-1.4	-0.9	-0.8	-0.5	-0.5	-0.3	0.0	0.0
External arrears (interest only)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	17.6	18.3	15.5	22.6	28.5	34.6	30.6	26.2	21.7	17.4
Total financing	-17.6	-18.3	-15.5	-22.6	-28.5	-34.6	-30.6	-26.2	-21.7	-17.4
Foreign borrowing (net)	-6.9	-7.3	8.8	-6.5	-25.5	-0.9	-0.4	-0.7	-0.3	0.4
Program financing	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Project loans	2.0	1.6	1.7	2.3	2.3	2.5	2.4	2.4	2.4	2.4
International bond for Paris Club buyback	0.0	0.0	16.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization (-)	-9.6	-8.9	-9.1	-8.8	-32.2	-3.6	-2.9	-3.2	-2.8	-2.0
Exceptional financing	0.1	0.0	0.1	0.0	4.4	0.2	0.1	0.1	0.1	0.0
Domestic borrowing (net)	-10.7	-11.0	-24.3	-16.1	-3.0	-33.7	-30.2	-25.5	-21.4	-17.8
Banking system	-4.0	-5.6	-16.3	-12.6	-1.4	-30.5	-27.7	-23.7	-20.3	-17.5
Monetary authorities	-4.8	-3.5	1.1	-11.0	-16.1	-30.2	-27.3	-23.1	-19.8	-17.0
Deposit money banks	0.8	-2.1	-17.3	-1.3	14.8	-0.4	-0.3	-0.6	-0.5	-0.5
Non-bank sector	-6.7	-5.5	-8.0	-3.5	-1.6	-3.2	-2.5	-1.8	-1.1	-0.3
Memorandum item:										
Non-oil primary balance, including grants	-18.0	-11.6	-13.3	-10.0	-11.2	-9.5	-7.6	-6.0	-6.0	-6.0

Source: Gabonese authorities and IMF staff estimates and projections.

[1] Country Report 07/174 is the Board document for the SBA issued in May 2007. Country Report 08/24 is the Board document for the first review of the SBA issued in December 2007.

Table 5. Gabon: Balance of Payments 2006–13
(Billion of CFA francs)

	2006	2007	2008	2009	2010	2011	2012	2013
	Est.	Est.	Proj.					
Current account	935.2	817.9	1421.0	1897.7	1670.5	1295.4	1045.8	784.4
Of which: non-oil current account	-872.2	-1046.3	-1246.1	-1369.4	-1342.9	-1382.3	-1445.5	-1424.2
Goods (net)	2214.2	2358.6	3433.0	4110.2	3702.8	3213.2	2813.7	2431.4
Export of goods (fob)	3104.0	3406.2	4757.2	5506.0	5202.5	4769.7	4400.0	4043.5
Hydrocarbons	2614.6	2802.5	3982.6	4751.7	4422.0	3967.8	3559.5	3168.5
Timber	266.5	304.8	295.0	311.9	326.3	340.5	355.0	363.1
Manganese	193.2	267.4	448.5	409.3	419.1	423.3	444.4	467.9
Other	29.6	31.5	31.2	33.0	35.1	38.0	41.0	44.0
Import of goods (fob)	-889.8	-1047.6	-1324.2	-1395.8	-1499.7	-1556.5	-1586.3	-1612.1
Petroleum sector	-219.4	-198.1	-221.9	-213.5	-233.5	-217.1	-162.1	-142.5
Other	-670.4	-849.5	-1102.2	-1182.3	-1266.2	-1339.4	-1424.2	-1469.7
Services (net)	-574.9	-761.1	-910.3	-940.6	-955.5	-964.3	-911.6	-904.2
Exports	139.4	182.1	236.2	249.1	260.7	270.9	274.8	280.5
Imports	-714.3	-943.1	-1146.5	-1189.7	-1216.2	-1235.2	-1186.4	-1184.7
Other private services[1]	-291.7	-397.9	-523.1	-518.6	-498.7	-473.3	-369.6	-343.7
Income (net)	-579.8	-642.2	-928.0	-1069.3	-876.2	-758.4	-666.3	-555.9
Government interest income[2]	-91.7	-92.3	-88.5	-48.7	85.5	130.0	157.6	205.4
Other sectors (incl. dividends and retained earnings[1])	-488.1	-549.9	-839.5	-1020.7	-961.6	-888.5	-824.0	-761.3
Current transfers (net)	-124.4	-137.5	-173.7	-202.5	-200.7	-195.0	-190.0	-186.9
Government	0.0	0.2	5.8	4.0	4.0	4.0	4.0	4.0
Other sectors	-124.4	-137.7	-179.5	-206.5	-204.7	-199.0	-194.0	-190.9
Capital account	3.5	0.0	138.0	8.1	4.4	4.9	3.9	1.7
Of which: capital transfers (investment grants)	3.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
capital transfers (debt forgiveness)	0.0	0.0	138.0	8.1	4.4	4.9	3.9	1.7
Financial account	-748.1	-810.9	-999.8	-832.2	-618.6	-340.2	-178.1	11.3
Direct investment (net)	-18.3	47.6	293.6	330.9	391.9	524.5	584.0	532.0
Portfolio investments (net)	0.0	445.2	48.3	0.0	0.0	0.0	0.0	0.0
Other investment assets and liabilities (net)	-729.8	-1303.7	-1341.7	-1163.1	-1010.4	-864.7	-762.1	-520.7
Medium- and long-term transactions	-198.8	-258.8	-1045.5	-168.2	-140.6	-162.7	-135.7	-93.9
Government	-170.0	-204.6	-939.4	-37.7	-18.2	-31.5	-15.1	16.6
Banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other sectors	-28.8	-54.2	-106.1	-130.5	-122.4	-131.2	-120.6	-110.4
Short term transactions	-531.0	-1044.8	-296.2	-994.8	-869.8	-702.1	-626.3	-426.8
Government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Banks	20.5	-394.7	454.1	-17.2	-18.0	-16.9	-15.6	-16.0
Other sectors[1]	-551.5	-650.1	-750.3	-977.6	-851.8	-685.1	-610.8	-410.8
Net errors and omissions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	190.6	7.0	559.2	1073.7	1056.4	960.1	871.6	797.4
Financing	-190.6	-7.0	-559.2	-1073.7	-1056.4	-960.1	-871.6	-797.4
Change in net international reserves	-190.6	-7.0	-559.2	-1073.7	-1056.4	-960.1	-871.6	-797.4
Changes in reserve assets of monetary authorities	-183.2	8.8	-548.5	-1073.7	-1056.4	-960.1	-871.6	-797.4
Use of IMF credit and loans (net)	-7.3	-15.7	-10.7	0.0	0.0	0.0	0.0	0.0
Exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
			(Percent of GDP, unless otherwise noted)					
Memorandum items:								
Current account	18.7	14.8	19.9	23.2	20.5	16.2	13.3	10.1
Oil	36.2	33.6	37.4	40.0	36.9	33.5	31.7	28.5
Non-oil	-17.5	-18.9	-17.5	-16.8	-16.5	-17.3	-18.4	-18.4
Capital and financial accounts	-14.9	-14.6	-12.1	-10.1	-7.5	-4.2	-2.2	0.2
Overall balance	3.8	0.1	7.8	13.1	12.9	12.0	11.1	10.3
Gross official reserves (billions of CFA francs)	559	581	1151	2225	3281	4241	5113	5910
Gross official reserves (months of goods and services imp	4.2	3.5	5.6	10.3	14.5	18.2	22.1	25.4
Exchange rate (CFA francs per US$, average)	522	479	…	…	…	…	…	…

Sources: Gabonese authorities and IMF staff estimates and projections.

[1] Primarily by oil, logging, and mining companies.

[2] Includes interest on fiscal savings invested abroad.

Table 6. Gabon: Monetary Survey, 2004–08

	2004	2005	2006	2007		2008	
	Dec.	Dec.	Dec.	Mar.	Dec.	Mar.	Dec. Proj.
	(Billions of CFA francs, end of period)						
Net foreign assets[1]	291.4	542.0	715.4	666.1	1117.1	601.1	1222.2
Net domestic assets	369.2	290.6	262.4	318.2	-69.3	465.1	-59.5
Domestic credit	492.0	434.2	416.1	460.6	72.2	601.9	73.4
Claims on general government (net)	117.5	16.4	-90.6	-91.7	-523.0	30.9	-591.5
Claims on central government (net)[1]	151.5	57.8	-39.6	-51.1	-491.0	73.6	-534.1
Claims on public agencies (net)	-34.1	-41.4	-51.0	-40.6	-32.0	-42.7	-57.3
Claims on nongovernment	374.5	417.9	506.7	552.3	595.1	571.1	664.9
Other items (net)	-122.7	-143.6	-153.7	-142.4	-141.5	-136.8	-132.9
Broad money (M2)	660.6	832.6	977.8	984.4	1047.8	1066.3	1162.7
Currency	138.7	190.2	219.1	198.2	226.2	217.7	251.0
Deposits	522.0	642.4	758.8	786.2	821.6	848.6	911.7
	(12-month change over last year's broad money, in percent)						
Net foreign assets[1]	35.5	37.9	20.8	6.8	41.1	-6.6	10.0
Net domestic assets	-23.8	-11.9	-3.4	3.1	-33.9	14.9	0.9
Domestic credit	-21.1	-8.7	-2.2	1.9	-35.2	14.4	0.1
Claims on general government (net)	-14.6	-15.3	-12.8	-13.4	-44.2	12.5	-6.5
Claims on nongovernment	-6.5	6.6	10.7	15.4	9.0	1.9	6.7
Other items (net)	-2.7	-3.2	-1.2	1.2	1.2	0.6	0.8
Broad money (M2)	11.6	26.0	17.4	9.8	7.2	8.3	11.0
Memorandum items:							
	(Annual percent change)						
Broad money (M2)	11.6	26.0	17.4	9.8	7.2	8.3	11.0
Reserve money (RM)	22.1	31.6	27.5	10.2	10.2	19.3	11.0
Credit to the economy	-9.3	11.6	21.3	33.2	17.5	3.4	11.7

Source: Gabonese authorities and IMF staff estimates and projections.

[1] The spike of net foreign assets and central government deposits at end-2007 is related to the financing of the Paris Club debt buyback. Gabon issued US$1billion Eurobond in December 2007, the proceeds of which were credited to a government account in a local bank that placed the funds in a bank abroad. In January 2008 the Eurobond proceeds were used to finance the Paris Club debt buyback.

Table 7. Gabon: Central Bank and Commercial Banks, 2004–08
(Billions of CFA francs, end of period)

	2004	2005	2006	2007		2008	
	Dec.	Dec.	Dec.	Mar.	Dec.	Mar.	Dec. Proj.
Central bank							
Net foreign assets	165.2	334.0	527.9	510.9	534.9	436.2	1094.1
Net domestic assets	95.4	8.9	-90.7	-98.7	-53.0	55.4	-559.3
Claims on general government (net)	94.3	29.4	-86.2	-97.6	-56.0	53.9	-562.4
Claims on central government (net)	94.3	29.4	-86.2	-97.6	-56.0	53.9	-562.4
Claims	197.2	174.1	89.9	85.6	110.4	218.9	98.9
Statutory advances	148.1	135.4	60.9	60.7	98.9	211.4	98.9
Use of IMF credit	48.0	37.9	28.4	24.3	11.0	7.1	0.0
Deposits	-102.8	-144.6	-176.1	-183.2	-166.4	-165.1	-661.2
Other items (net)	1.0	-20.5	-4.5	-1.1	3.0	1.5	3.0
Reserve money	260.6	342.9	437.2	412.2	481.9	491.6	534.7
Currency outside banks	138.7	190.2	219.1	198.2	226.2	217.7	251.0
Bank reserves	119.5	148.8	216.2	212.7	245.9	265.8	273.9
Cash	20.8	22.5	27.2	26.2	27.9	29.3	31.0
Deposits	98.7	126.3	189.0	186.5	218.0	236.5	242.9
Nonbank deposits	2.4	3.9	1.9	1.3	9.8	8.1	9.8
Deposit money banks							
Net foreign assets [1]	126.2	208.0	187.5	155.3	582.2	164.9	128.1
Net domestic assets	393.4	430.5	569.3	629.6	229.5	675.6	773.7
Reserves	119.5	148.8	216.2	212.7	245.9	265.8	273.9
Cash	20.8	22.5	27.2	26.2	27.9	29.3	31.0
Deposits with central bank	98.7	126.3	189.0	186.5	218.0	236.5	242.9
Domestic credit	397.6	404.8	502.4	558.2	128.2	548.1	635.8
Claims on central bank (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Claims on government (net)	23.1	-13.1	-4.3	5.9	-467.0	-23.0	-29.1
Claims on central government (net)	57.2	28.3	46.7	46.5	-435.0	19.7	28.2
Claims	86.6	86.7	88.3	98.9	116.8	98.3	115.2
Deposits [1]	-29.4	-58.4	-41.7	-52.4	-551.8	-78.6	-87.0
Claims on public agencies (net)	-34.1	-41.4	-51.0	-40.6	-32.0	-42.7	-57.3
Claims on nongovernment	374.5	417.9	506.7	552.3	595.1	571.1	664.9
Public enterprises	16.1	7.5	4.0	2.5	1.8	1.3	1.8
Private sector	358.4	410.4	502.7	549.8	593.3	569.7	663.0
Other items (net)	-123.8	-123.1	-149.2	-141.3	-144.5	-138.3	-135.9
Deposit liabilities to nonbank residents	522.0	642.4	758.8	786.2	821.6	848.6	911.7

Source: Gabonese authorities and IMF staff estimates and projections.

[1] The spike of net foreign assets and central government deposits at end-2007 is related to the financing of the Paris Club debt buyback. Gabon issued US$1billion Eurobond in December 2007, the proceeds of which were credited to a government account in a local bank that placed the funds in a bank abroad. In January 2008 the Eurobond proceeds were used to finance the Paris Club debt buyback.

Table 8 Gabon: Financial Soundness Indicators for the Banking Sector, 2002–07
(Ratios in percent)

	2002	2003	2004	2005	2006	2007
Capital						
Regulatory capital to risk-weighted assets[1, 2]	17.2	19.9	22.3	19.8	17.8	14.3
Tier 1 capital to risk-weighted assets[2]	16.5	19.0	21.1	19.0	17.2	13.9
Capital to total assets[3]	12.4	13.1	13.2	11.1	10.2	7.0 [8]
Asset quality						
Nonperforming loans (gross) to total loans[4] (gross)	11.7	13.9	16.0	14.1	10.7	7.6
Nonperforming loans (gross) to total loans excluding loans to government (gross)	14.6	17.6	20.1	17.4	12.9	9.3
Nonperforming loans (net of provisioning) to regulatory capital[2]	38.3	32.2	30.3	26.3	22.4	16.7
Loan loss provisions to nonperforming loans	41.7	53.9	53.6	55.5	57.4	59.8
Earnings and profitability						
Return on assets[5]	1.9	0.7	2.8	2.6	2.5	…
Return on equity[6]	15.1	5.7	21.3	21.1	23.5	…
Liquidity						
Ratio of net loans to total deposits[7]	100.5	89.9	70.9	59.8	63.0	46.9

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

[1] Specific loan loss provisions are excluded from the definition of capital. General loan loss provisions are included in Tier 2 capital up to an amount equal to 1.25% of risk-weighted assets. Regulatory capital is the sum of Tier 1 capital and the minimum of Tier 1 and Tier 2 capital.

[2] Risk-weighted assets are estimated using the following risk weights: 0% – cash reserves in domestic and foreign currency and claims on the central bank and the government; 20% – claims on correspondent banks in foreign currency; 100% – all other assets.

[3] Loan loss provisions are excluded from the definition of capital.

[4] Total loans are the sum of claims on the economy net of claims on financial institutions, credits to nonresidents, and claims on government net of treasury bonds and related instruments *(bons d'équipement)*.

[5] The ratio of after-tax profits to the average of beginning- and end-period total assets.

[6] The ratio of after-tax profits to the average of beginning- and end-period capital net of specific loan loss provisions.

[7] Including government deposits.

[8] The uncharacteristic drop in 2007 of capital to total assets is related to the financing of the Paris Club debt buyback. Gabon issued a US$1 billion Eurobond in December 2007, the proceeds of which were deposited in a local branch of a foreign bank, which in turn deposited the money at its headquarters. In January 2008 the Eurobond proceeds were used to finance the Paris Club debt buyback.

Table 9. Gabon: External Debt 2006–13

	2006	2007	2008	2009	2010	2011	2012	2013
	Est.		Proj.					
	(Billion of CFA francs)							
Debt stocks								
Total external debt (including IMF)	1623.2	1936.2	986.8	953.7	937.8	870.8	815.2	815.4
Multilateral	203.0	174.5	162.5	174.4	186.1	195.6	208.9	222.3
Bilateral	1407.3	1293.4	379.1	334.2	306.5	230.0	161.0	127.0
Of *which:* Paris Club	1366.4	1251.6	332.3	282.1	248.7	177.8	115.8	88.8
Commercial debt	12.9	468.4	445.2	445.2	445.2	445.2	445.2	466.1
Of *which:* London Club	6.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
International Bond	0.0	445.2	445.2	445.2	445.2	445.2	445.2	445.2
Debt service								
Principal								
Total debt (Including IMF)	240.7	268.5	1021.6	124.2	106.5	126.2	115.6	90.5
Multilateral	33.4	41.5	34.6	25.9	26.9	31.2	27.4	31.1
Bilateral	180.4	196.7	955.1	90.8	77.7	93.4	87.0	58.0
Of *which:* Paris Club	177.0	189.6	950.6	87.4	72.4	87.8	79.9	51.0
Commercial debt	26.8	30.3	32.0	7.5	1.9	1.6	1.3	1.3
Of *which:* London Club	4.7	4.4	0.0	0.0	0.0	0.0	0.0	0.0
International Bond	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest								
Total debt (Including IMF)	93.6	93.4	102.3	88.2	73.1	70.9	67.6	64.2
Multilateral	13.0	12.0	9.2	10.4	10.8	11.2	11.6	11.7
Bilateral	79.6	80.6	36.3	25.1	24.3	21.8	18.1	14.7
Of *which:* Paris Club	78.9	79.8	35.3	24.0	22.3	20.4	16.8	13.7
Commercial debt	1.0	0.7	56.7	52.8	37.9	37.9	37.9	37.8
Of *which:* London Club	0.6	0.3	0.0	0.0	0.0	0.0	0.0	0.0
International Bond [1]	0.0	0.0	56.4	52.4	37.4	37.4	37.5	37.4
Memorandum items:								
Total debt service/Exports (%)								
Principal	7.4	7.5	20.5	2.2	1.9	2.5	2.5	2.1
Interest	2.9	2.6	2.0	1.5	1.3	1.4	1.4	1.5
External public debt / GDP (%)	32.5	34.9	13.8	11.7	11.5	10.9	10.4	10.5
External public debt / exports (%)	50.0	54.0	19.8	16.6	17.2	17.3	17.4	18.9

Source: Gabonese authorities and IMF staff estimates and projections.

[1] Including management fees.

Table 10. Gabon: Indicators of External Vulnerability, 2002–07

	2002	2003	2004	2005	2006	2007
Exports (percent change, 12-month basis, US$)	-2.0	24.2	33.1	29.1	8.6	19.8
Imports (percent change, 12-month basis, US$)	10.6	11.3	17.8	10.6	25.1	28.5
Terms of trade (percent change, 12-month basis)	4.1	3.6	8.7	21.6	8.9	4.4
Current account balance, incl. grants (percent of GDP)	6.9	9.5	11.2	22.9	18.7	14.8
Gross official reserves (US$ millions)	140	197	442	678	1,125	1,292
Gross official reserves (in months of imports of goods and services of the following year)[1]	1.0	1.0	2.0	2.8	3.4	2.8
Gross reserves of the banking system (US$ millions)[1]	252	359	838	1,158	1,622	2,813
Gross reserves of the banking system (months of imports of goods and services in the following year)[1]	1.8	1.9	3.9	4.8	4.9	6.1
Central bank short-term foreign liabilities (US$ millions)[1]	68.4	71.1	104.4	74.9	61.9	35.5
Total public and publicly guaranteed external debt (US$ millions)	3,360	3,687	3,857	3,234	3,270	4,303
Total external debt to exports of goods and services (percent)	117.6	101.1	80.0	60.5	50.0	54.0
External interest payments to exports of goods and services (percent)	6.5	5.7	3.9	2.7	2.9	2.6
External amortization payments to exports of goods and services (percent)	13.7	10.6	9.4	6.1	7.4	7.5
Exchange rate (per US$, period average)	694.6	580.1	527.6	526.6	522.4	478.6
Exchange rate (per US$, end of period)	644.2	533.7	489.2	553.3	496.5	449.9
Net foreign assets of commercial banks (US$ millions)	-15.4	27.4	257.9	375.9	377.7	1294.0

Source: Gabonese authorities and IMF staff estimates.

[1] Gabon is a member of the Central African Economic and Monetary Community (CEMAC) and its regional central bank (BEAC). Gross reserves in the table are BEAC gross reserves imputed to Gabon.

Table 11. Gabon: Progress Toward Millennium Development Goals

Indicators	1990	1995	2000	2005
Goal 1: Halve the rates for $1 a day poverty and malnutrition.				
Prevalence of malnutrition (% of children under 5)	..	..	12.0	..
Goal 2: Ensure that children are able to complete primary schooling.				
Primary school enrollment (net, %)	*85*	..	*77*	..
Primary completion rate (% of relevant age group)	*64*	64	*68*	*66*
Secondary school enrollment (gross, %)	..	..	45	..
Youth literacy rate (% of people ages 15-24)	..	*93*	..	*96*
Goal 3: Eliminate gender disparity in education and empower women.				
Ratio of girls to boys in primary and secondary education (%)	..	..	96	..
Women employed in the nonagricultural sector (% of nonagricultural employment)	38	..	..	..
Proportion of seats held by women in national parliament (%)	13	..	8	9
Goal 4: Reduce under-5 mortality by two-thirds.				
Under-5 mortality rate (per 1,000)	92	91	91	91
Infant mortality rate (per 1,000 live births)	60	60	60	60
Measles immunization (proportion of 1-year-olds immunized, %)	76	57	55	55
Goal 5: Reduce maternal mortality by three-fourths.				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	420	..
Births attended by skilled health staff (% of total)	..	..	86	..
Goal 6: Halt and begin to reverse the spread of HIV/AIDS and other major diseases.				
Prevalence of HIV (% of population ages 15-49)	..	..	..	7.9
Contraceptive prevalence (% of women ages 15-49)	..	..	33	..
Incidence of tuberculosis (per 100,000 people)	157	152	253	308
Tuberculosis cases detected by DOTS (%)	..	..	*76*	57
Goal 7: Halve the proportion of people without sustainable access to basic needs.				
Access to an improved water source (% of population)	..	83	86	*88*
Access to improved sanitation facilities (% of population)	..	35	36	*36*
Forest area (% of total land area)	85.1	..	84.7	84.5
Nationally protected areas (% of total land area)	..	..	..	*3.4*
CO2 emissions (metric tons per capita)	6.3	3.3	1.2	*0.9*
GDP per unit of energy use (constant 2000 PPP $ per kg of oil equivalent)	5.1	5.2	4.8	*4.6*
Goal 8: Develop a global partnership for development.				
Fixed line and mobile phone subscribers (per 1,000 people)	22	32	125	498
Internet users (per 1,000 people)	0	*0*	12	48
Personal computers (per 1,000 people)	..	5	9	33

Source: World Bank, Development Data Group (DECDG).

Note: Figures in italics are for years other than those specified. .. indicates data are not available.

Appendix I. Assessing External Debt Sustainability

1. **Staff analyzed the sustainability of Gabon's external debt based on the framework for market-access countries** as modified to take into account the fact that Gabon is a net creditor country and an oil exporter with declining production. While the standard analysis was used to compare baseline projections with an "unbiased" scenario where all variables are assumed to evolve in line with historical averages, some stress tests were adjusted. Because Gabon's oil production is projected to decline steadily over the next two decades, the standard analysis was also extended beyond the five-year horizon, to assess the sustainability of debt through 2030.

2. **Debt dynamics in 2008 have been positively affected by Gabon's prepayment of 86 percent of its Paris Club debt at a discount.** The US$1.6 billion prepayment was financed by issuance in December 2007 of a Eurobond (a US$1 billion bullet bond with an 8.2 percent coupon) and in January 2008 of a CFAF 81.5 billion bond on the CEMAC market (a six-year amortizing CFAF bond with a 5.5 percent coupon). The remainder of the prepayment (CFAF 224 billion) was funded by an increase in net credit from the BEAC. Because the Eurobond was issued in December 2007 and the prepayment took place in 2008, the stock of external debt increased from 32.5 percent of GDP at end-2006 to 34.9 at end- 2007. As is standard practice for CFA-zone countries, the regional bond is considered domestic debt and thus excluded from this DSA. The discount granted by the Paris Club amounted to about FCFA 130 billion. At the end of 2008, the stock of external debt is thus projected to plunge to 14.2 percent of GDP.

3. **The debt-to-GDP ratio is expected to fall sharply with repayment of the Eurobond in 2017.** To provide for the repayment of a portion of the Eurobond at maturity, the government intends to deposit a minimum of US$50 million a year in a foreign investment account managed by the World Bank. The account will also be used to buy back the Eurobond on the secondary market when conditions are favorable. However, since the arrangement with the World Bank has not yet been finalized, the repayment scheme was not reflected in the DSA.

4. **Because an oil price change has a heavy impact both on nominal GDP and the current account, the standard tests have been modified to distinguish between oil and non-oil developments**. The current account shock has been replaced by an oil price shock, and a shock on non-oil growth has been substituted for the growth shock. In the oil price shock scenario, the change in the oil price[1] affects both oil GDP and the current account.[2] For the depreciation scenario, the DSA template was modified to reflect that a large, but gradually decreasing, share of Gabon's GDP is denominated in foreign currency (for exports of oil, manganese, and wood).

5. **The baseline scenario for 2008–30 assumes a high oil price, successful development of the non-oil economy, and a commitment to a permanently sustainable non-oil fiscal deficit.** Real non-oil GDP growth increases from 4.8 percent in 2008 to about 5.3 percent in

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[1] The oil price is $10 below the baseline scenario in the shock scenario.

[2] Because of the structural break in the international oil price in 2002, all tests have been calibrated for standard deviations for 2002–07 rather than over the default period of 1998-2007 of the DSA Template.

2010 and then declines gradually to 2 percent, its long-term historical average[3]. Real oil GDP plunges between 2009 and 2013 but then declines more gradually by about 1.6 percent a year. International oil prices and the CFAF/US$ exchange rates reflect *World Economic Outlook* projections through 2013 and are kept constant in real terms afterward. The external current account surplus, which is adversely affected by the decline in oil production, falls from 21.6 percent of GDP in 2008 to about 2.4 percent by 2030. However, imports decrease relative to GDP because of fiscal consolidation and the decline in the investment needs of the oil sector as resources are exhausted. Income inflows also increase because they include the interest revenue generated by accumulated fiscal reserves. These are estimated by assuming that the non-oil primary deficit will decline to its permanently sustainable level of 6 percent of non-oil GDP by 2011 and then hold there.

6. **New external debt is assumed to contract annually at 2 percent of non-oil GDP to sustain the necessary growth-enhancing investment.** Half of the new debt is contracted from multilateral institutions on a 10-year repayment schedule with a 2-year grace period. The other half is borrowed from bilateral creditors with a 7-year maturity and a 2-year grace period. Interest is charged at the euro CIRR rate. No assumption has been made about rollover of the Eurobond in 2017. Repayment risk is mitigated by the fact that the government intends to create a sinking fund financed at US$ 50 million a year (see ¶3), which would be used either to buy back the Eurobond or invest in AA– securities, depending on market conditions.

7. **In the baseline scenario Gabon's debt-to-GDP ratio is projected to be sustainable, dropping to about 5.2 percent of GDP after the Eurobond is repaid in 2017.** By 2030 the debt-to-GDP ratio slides to 4.2 percent. The scenario based on historical averages and the stress tests confirm the conclusions of the baseline scenario. Because oil production is declining in Gabon, the current account surpluses are much higher in the historical than in the baseline scenario, and external debt is totally repaid by 2012.

8. **For the five-year horizon over which the debt sustainability analysis of middle-income countries is usually assessed, under all the stress tests Gabon's external debt remains well below the critical range of 40 percent of GDP,** above which typically the probability of a crisis becomes significant.

9. **For the long term, with all stress tests except the depreciation shock the debt-to-GDP ratio would also remain below the critical range.** For the depreciation shock, the ratio rises above 50 percent in 2024 and reaches 93.4 percent in 2030. This results in part from the standard assumption that Gabon would continue to accumulate reserves at the same pace as in the baseline scenario if there were a severe negative external shock. Given the very large accumulation of reserves in the baseline case, this assumption is unlikely; any reduction in the current account surplus is likely to result in less accumulation of foreign assets.[4]

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[3] Because of lack of information, the projections do not include the impact of the Belinga Iron ore mining project.

[4] In the bound tests the evolution of external debt relative to GDP equals the sum of the changes in debt service minus the current account net of debt service payments, net foreign direct and portfolio investment, and the accumulation of foreign assets by residents. The US dollar value of the accumulation of foreign assets by residents in each year of the forecast period is kept the same as in the baseline scenario. In Gabon, this residual is sizable, reflecting government savings of oil revenues.

Appendix Table 1. Gabon: External Debt Sustainability Framework, 2003-2030

(In percent of GDP, unless otherwise indicated)

	Actual					Projections										
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2015	2020	2025	2030	Debt-stabilizing non-interest current account [6]
1 **Baseline: External debt**	55.9	49.8	39.1	32.5	34.9	**13.8**	**11.7**	**11.5**	**10.9**	**10.4**	**10.5**	**10.4**	**4.7**	**3.7**	**4.2**	**-4.8**
2 Change in external debt	-7.1	-6.2	-10.6	-6.6	2.4	-21.1	-2.2	-0.2	-0.6	-0.5	0.2	0.0	-0.2	0.0	0.1	
3 Identified external debt-creating flows (4+8+9)	-25.5	-24.4	-31.5	-21.9	-29.3	-25.8	-28.1	-25.7	-23.0	-20.9	-17.1	-17.0	-14.2	-11.7	-7.3	
4 Current account deficit, excluding interest payments	-13.5	-13.6	-24.6	-20.6	-16.4	-21.1	-24.1	-21.4	-17.1	-14.2	-10.9	-11.7	-8.7	-6.5	-2.4	
5 Deficit in balance of goods and services	-24.3	-30.2	-37.0	-32.8	-28.8	-35.4	-38.8	-33.7	-28.1	-24.2	-19.7	-19.1	-13.3	-8.9	-3.6	
6 Exports	55.3	62.2	64.7	65.0	64.7	70.0	70.4	67.0	63.0	59.4	55.8	54.1	49.6	45.1	40.8	
7 Imports	31.1	32.0	27.7	32.1	35.9	34.6	31.6	33.3	34.9	35.2	36.1	35.0	36.3	36.2	37.2	
8 Net non-debt creating capital inflows (negative)	-4.4	-4.6	0.0	0.4	-8.9	-4.8	-4.0	-4.8	-6.6	-7.4	-6.9	-6.0	-5.7	-5.5	-5.2	
9 Automatic debt dynamics [1]	-7.5	-6.3	-6.8	-1.7	-4.0	0.2	0.1	0.5	0.6	0.6	0.7	0.7	0.3	0.3	0.3	
10 Contribution from nominal interest rate	4.1	2.4	1.7	1.9	1.7	1.2	0.9	0.9	0.9	0.9	0.8	0.9	0.4	0.3	0.3	
11 Contribution from real GDP growth	-1.3	-0.6	-1.2	-0.4	-1.5	-1.1	-0.8	-0.4	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1	-0.1	
12 Contribution from price and exchange rate changes [2]	-10.3	-8.1	-7.3	-3.2	-4.2	...	...	...	...	...	...	...	...	...	...	
13 Residual, incl. change in gross foreign assets (2-3) [3]	18.5	18.3	20.9	15.3	31.7	4.7	25.9	25.5	22.4	20.4	17.3	17.0	14.0	11.7	7.4	
External debt-to-exports ratio (in percent)	101.1	80.0	60.5	50.0	54.0	19.8	16.6	17.2	17.3	17.4	18.9	19.2	9.6	8.3	10.2	
Gross external financing need (in billions of US dollars) [4]	-0.2	-0.4	-1.6	-1.3	-1.1	-0.9	-4.3	-3.8	-2.9	-2.3	-1.8	-2.1	-1.7	-1.3	-0.3	
in percent of GDP	-3.6	-5.3	-18.9	-13.9	-9.9	-5.6	-21.7	-19.2	-14.6	-11.8	-9.0	-9.9	-7.0	-4.8	-0.8	
Scenario with key variables at their historical averages [5]						**13.8**	**20.1**	**20.6**	**15.5**	**7.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**-3.1**
Key Macroeconomic Assumptions Underlying Baseline																
Real GDP growth (in percent)	2.5	1.4	3.0	1.2	5.6	4.4	6.6	3.4	2.1	2.1	1.6	2.0	1.5	1.5	1.6	
GDP deflator in US dollars (change in percent)	19.6	16.9	17.2	8.8	14.9	38.9	9.3	-2.3	-2.5	-2.3	-1.6	1.0	1.3	1.2	1.4	
Nominal external interest rate (in percent)	7.9	5.1	4.2	5.3	6.3	5.1	7.6	7.8	7.7	7.9	8.0	8.8	8.1	9.0	8.5	
Growth of exports (US dollar terms, in percent)	26.6	33.2	25.7	10.5	20.8	56.9	17.3	-3.9	-6.4	-5.9	-6.1	1.5	0.8	0.9	1.0	
Growth of imports (US dollar terms, in percent)	11.0	22.1	4.5	27.7	35.5	39.9	6.5	6.3	4.3	0.8	2.4	4.5	0.9	1.7	4.0	
Current account balance, excluding interest payments	13.5	13.6	24.6	20.6	16.4	21.1	24.1	21.4	17.1	14.2	10.9	11.7	8.7	6.5	2.4	
Net non-debt creating capital inflows	4.4	4.6	0.0	-0.4	8.9	4.8	4.0	4.8	6.6	7.4	6.9	6.0	5.7	5.5	5.2	

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

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

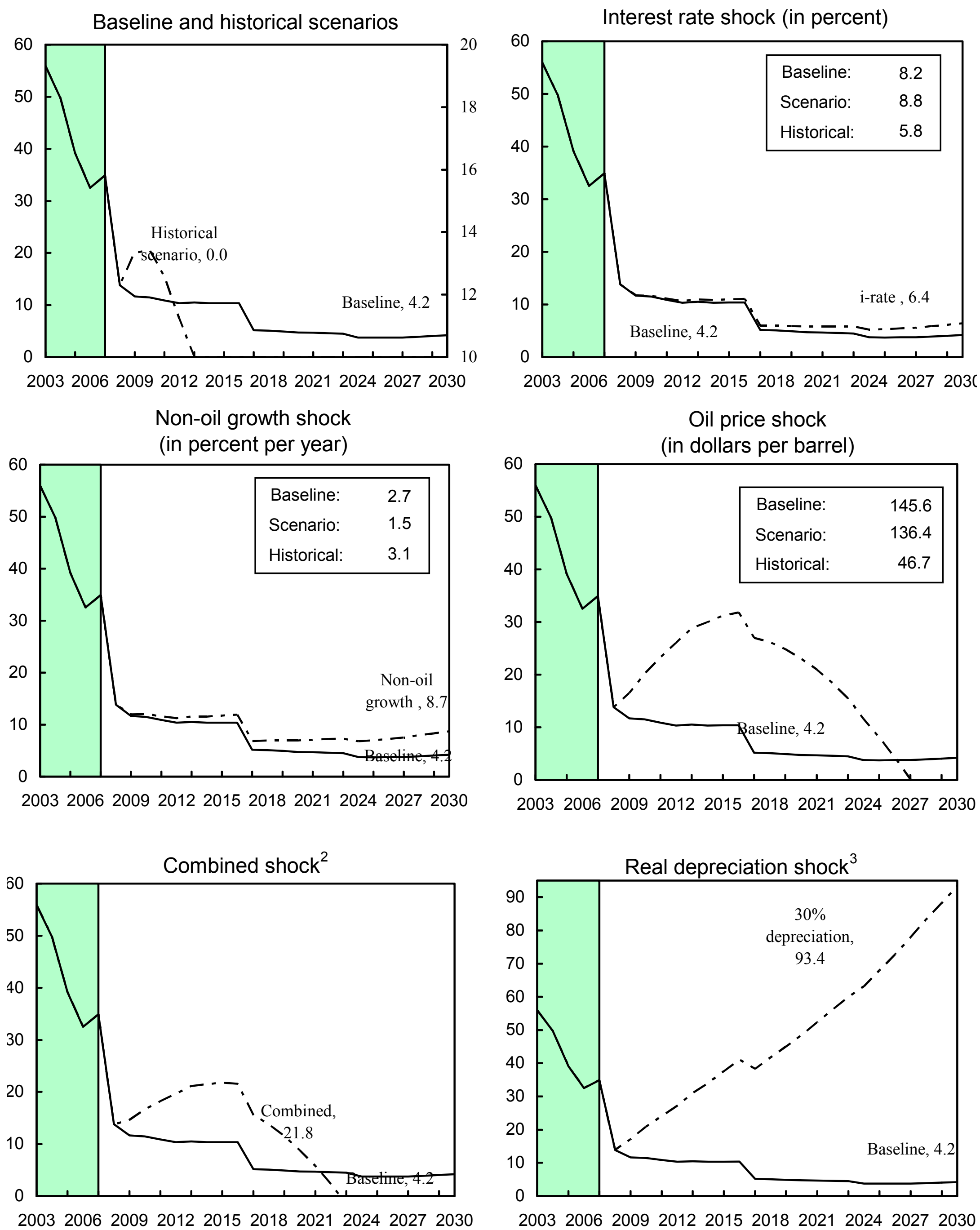
[3] For projection, line includes the impact of price and exchange rate changes.

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

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

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

Figure 1. Country: External Debt Sustainability: Bound Tests[1]
(External debt in percent of GDP)



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

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

[2] Permanent 1/4 standard deviation shocks applied to real interest rate, non-oil growth rate, and oil price (current account balance).

[3] One-time real depreciation of 30 percent occurs in 2009.

Appendix II

INTERNATIONAL MONETARY FUND
Public Information Notice

EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 08/xx
FOR IMMEDIATE RELEASE
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International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2008 Article IV Consultation with Gabon

On July 28, 2008, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Gabon.[1]

Background

In 2006–07, the economy expanded by 3.4 percent on average. Non-oil growth averaged 5.5 percent, spurred by high international oil prices and domestic demand; oil production recovered in 2007 after a sharp decline in 2006. However, demand pressures and increases in fuel prices led to inflation to rise to 5.9 percent by the end of 2007.

Gabon's external position is considered sustainable given current commodity price trends. Buoyant commodity prices produced large surpluses in the external and fiscal accounts, which should allow Gabon to reduce its public debt to 15.6 percent of GDP by end-2008. Gabon also issued its first international bond in the amount of US$1 billion in December 2007 and its first regional bond on the CEMAC market in the amount of CFAF 81.5 billion in January 2008 to prepay most of its Paris Club debt.

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

Fiscal policy was tightened in 2007 and early 2008, but by less than anticipated. The non-oil primary fiscal deficit dropped from 18.0 percent of non-oil GDP in 2006 to 13.3 percent in 2007—1.7 percentage points less than expected, due to a small shortfall in non-oil revenue and an overrun on non-wage spending. Nevertheless, Gabon recorded a large overall fiscal surplus in 2007 as oil revenue was much higher than projected.

Implementation of the structural reform agenda slowed in the second half of 2007. In particular, fuel prices have not been adjusted since March 2007, and the automatic price adjustment mechanism was not implemented. As a result fuel subsidies may reach 3.3 percent of non-oil GDP in 2008. However there was notable progress in some areas. Gabon's third report under the Extractive Industries Transparency Initiative was expanded to cover most oil companies and the mining sector and was published in March 2008. The oil revenue model was also completed, which will strengthen the estimation of current and projected oil receipts.

Looking ahead, the critical challenge facing Gabon is to seize the opportunity provided by high oil prices to place macroeconomic policies on a long-term sustainable path while fostering economic diversification and preparing Gabon for the post-oil era.

Executive Board Assessment

Gabon: Selected Economic Indicators, 2006–13

	2006	2007	2008	2009	2010	2011	2012	2013
			Projections					
	(Annual percent change, unless otherwise indicated)							
Production, prices, and money								
Real GDP	1.2	5.6	4.4	6.6	3.4	2.1	2.1	1.6
Oil	-9.0	3.4	4.4	11.9	-2.2	-5.8	-5.9	-6.6
Non-oil	4.9	6.2	4.4	5.0	5.3	4.5	4.3	3.7
Consumer prices (average)	-1.4	5.0	3.8	5.9	4.2	3.3	2.5	2.5
Terms of trade (deterioration= –)	8.9	4.4	27.2	4.3	-1.3	-0.2	-0.6	-0.4
Broad money	17.4	7.2	11.0	8.6	8.2	7.2	6.1	6.0
Government operations	(Percent of GDP, unless otherwise indicated)							
Overall balance (cash basis)	8.6	7.8	12.6	14.4	13.8	12.9	11.6	10.0
Non-oil primary balance (percent of non-oil GDP)	-18.0	-13.3	-11.2	-9.5	-7.6	-6.0	-6.0	-6.0
Total gross public debt	44.2	44.5	22.0	17.2	15.7	13.8	12.4	12.1
External sector								
External current account balance (with official transfers)	18.7	14.8	19.9	23.2	20.5	16.2	13.3	10.1
External public debt (including to the Fund)	32.5	34.9	13.8	11.7	11.5	10.9	10.4	10.5

Source: Gabonese authorities, and IMF staff estimates and projections.