

SM/08/229
Correction 1

August 8, 2008

To: Members of the Executive Board
From: The Secretary
Subject: **Gabon—Staff Report for the 2008 Article IV Consultation**

The attached correction to SM/08/229 (7/8/08) has been provided by the staff:

Typographical Error

Page 3, para. 2, line 5: for “primary deficit amounted to 11.3 percent of non-oil GDP”
read “primary deficit amounted to 13.3 percent of non-oil GDP”

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

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

Att: (1)

Other Distribution:
Department Heads

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 13.3 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.

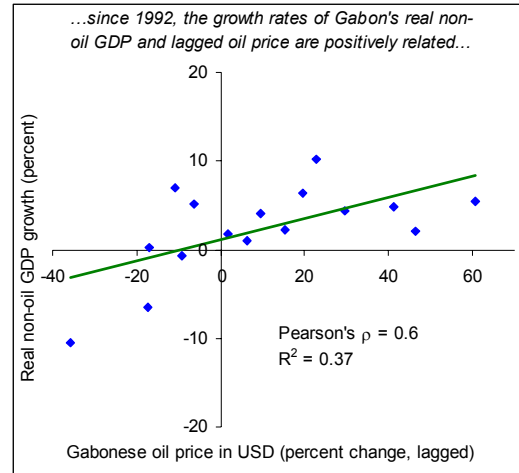
In December 2007, Gabon for the first time issued a US\$1 billion Eurobond and in January 2008 a bond on the CEMAC market. Proceeds were used to prepay most of its debt to Paris Club members.

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

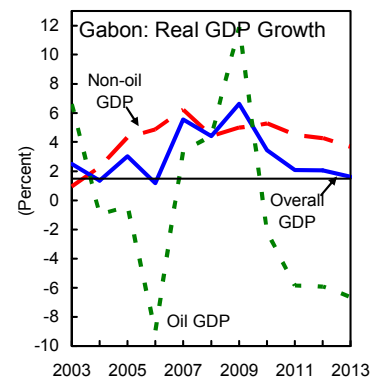
1. **Oil production over the last 40 years has transformed Gabon into a middle-income country, but income inequality is high and traditional economic sectors are stagnant.** Gabon has the highest PPP per capita GDP in Africa but ranks low among middle-income countries on human development indicators. 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.

