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Statement by an IMF Staff Mission to Gabon

Mr. John Wakeman-Linn, chief of an International Monetary Fund (IMF) mission to Gabon, issued the following statement yesterday in Libreville:

“An IMF mission visited Gabon from December 5-16, 2008 to continue discussions for the second and third reviews of the Stand By Arrangement that was approved on May 7, 2007 (See [Press Release No. 07/88](#)). The mission met with, Hon. Guy Nzouba-Ndama, President of the National Assembly, Mr. Jean Eyeghe-Ndong, Prime Minister, Mr. Blaise Louembet, Minister of Economy, Finance, Budget, and Privatization, Mr. Herve Nze-Nong, National Director, Bank of Central African States (BEAC), and other senior officials. The Fund mission met also with representatives of the business community, and Gabon's donors and lenders.

“The global financial crisis and economic slowdown and its important repercussions for Gabon shaped the discussions. Robust economic growth in 2007 and the first half of 2008, driven by the dynamic non-oil sector, domestic demand, and the petroleum sector have given way to a slowdown in the latter months of 2008, due primarily to the weakening global economy, which impacted negatively the important timber and mining sectors. Inflation remained roughly unchanged at 5.6 percent at end-2008. The mission welcomed Gabon's stronger external position and debt situation following the US\$1.6 billion debt buy-back operation with Paris Club creditors.

“The abrupt changes in the international environment, the rapid decline in the price of a barrel of oil, and the prospects of a sharp slowdown in the world economy all pose risks to the macroeconomic outlook. In view of its limited exposure to international financial flows, the Gabonese financial sector is not expected to face a direct effect. However, a significant decline in oil revenues could affect growth over time through a slowdown in the non-oil sector and public investment program. In addition, the timber and manganese industries are experiencing slowdowns as a result of global developments. This environment of great uncertainty calls for heightened flexibility in macroeconomic policies in order to limit the

impact of international developments on the domestic economy, preserve macroeconomic stability, and support growth.

“Gabon’s challenge is to manage its finances recognizing its finite oil reserves and related revenues. To that end, progress in reducing the non-oil primary deficit was accomplished in 2008 although not by as much as planned owing to a shortfall in non-oil revenue in late 2008, the acceleration of spending on high priority capital projects and higher than planned fuel price subsidies as a result of the hike in international oil prices and the absence of adjustment in domestic prices since the increase in March 2007. Progress in bringing the non-oil deficit down to manageable levels remains a key challenge to placing Gabon’s finances on a sustainable foundation.

“The authorities are encouraged to pursue a prudent fiscal policy, and to focus on the short- and medium-term on contingency measures that will allow reaching the medium non oil deficit targets by 2011. Controlling expenditures, in particular by introducing the automatic fuel price adjustment mechanism to contain related subsidies while seeking more efficient means to assist vulnerable households is important. The current environment of low world oil prices offers an opportunity to reach this objective, while the loss of fiscal revenue makes the reduction of subsidies critical.

“The government indicated its readiness to adopt a number of measures in the event that the global economic situation remains unfavorable for an extended period. Such measures could include further streamlining of government expenditures, and enhanced efficiency in mobilizing nonhydrocarbon tax receipts. The current crisis underscores the importance of diversifying the economy, which remains reliant on the hydrocarbon sector. This will require continuing and accelerating structural reforms to improve the business climate, including at the regional level the sound development of the financial sector.

“On the basis of understandings reached during the mission, the staff will recommend to Fund Management the completion of the second and third reviews under Gabon’s Stand-By Arrangement.”