SM/08/229
Correction 2

January 16, 2009

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:

Factual Error Not Affecting the Presentation of Staff's Analysis or Views

Page 5, Box 1, first bullet: for "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." read "Quantitative performance criteria at end-2007 and end-March 2008 on the non-oil primary deficit were missed."

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.

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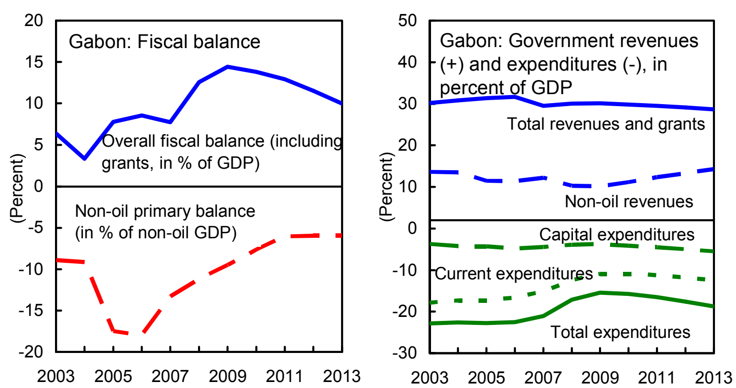
Department Heads

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.