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April 7, 1986

To: Members of the Executive Board

From: The Secretary

Subject: Gabon - Staff Report for the 1986 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1986 Article IV consultation with Gabon. A draft decision appears on page 20.

This subject will be brought to the agenda for discussion on a date to be announced.

Mr. Brachet (ext. 8600) or Mr. Jbili (ext. 8735) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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INTERNATIONAL MONETARY FUND

Gabon--Staff Report for the 1986 Article IV Consultation

Prepared by the Staff Representatives for
the 1986 Consultation with Gabon

Approved by A.D. Ouattara and W.A. Beveridge

April 4, 1986

I. Introduction

The 1986 Article IV consultation discussions with Gabon were held in Libreville during the period January 24-February 6, 1986. The Gabonese representatives included the Minister of Economy, Finance, and Participations and his principal advisors; the Governor, Vice-Governor, and National Director for Gabon of the Bank of Central African States (BEAC); and officials from the Ministry of Planning and other economic ministries. The head of the mission was received by the President of the Republic. The staff representatives were Messrs. Brachet (ETR--head), Franks, Jbili, and Rajcoomar (all AFR), with Mrs. Charlot (ADM) as secretary. Mr. Alfidja, Executive Director for Gabon, and Mr. Obame, Advisor in his office, participated in the discussions.

Gabon continues to avail itself of the transitional arrangements of Article XIV. Summaries of Gabon's relations with the Fund and with the World Bank are provided in Appendices I and II, respectively.

II. Recent Developments

In concluding the 1984 Article IV consultation with Gabon (EBM/85/42, 3/15/85), Executive Directors welcomed the improvement in Gabon's economic position in 1984 following a series of difficulties the year before. They expressed concern, however, about the continued vulnerability of the economy to external shocks, as well as over the high rate of government spending and the rapid growth of off-budget expenditure. They urged the authorities to strengthen budget procedures and also stressed the need for diversifying investment away from infra-structure toward the productive sectors. Emphasis also was placed on the need to reduce unit production costs, which are among the highest in Africa, to assist in the process of economic diversification. It was noted that attainment of this objective would call for considerable restraint in wage policy and continued efforts to increase the supply of skilled labor and enhance productivity.

As Directors had feared, however, Gabon's fortunes took a turn for the worse in 1985. Real GDP is estimated to have contracted by some 2 percent, reflecting a small decline in oil output and, because of adverse weather conditions and weak world demand, a marked drop in cash crops and in forestry activity (Chart 1). Given the softening of export prices, real per capita income adjusted for the terms of trade effect is estimated to have fallen by some 8 percent.

Despite a slowdown in the rate of nominal expenditure growth, demand management remained expansionary. Government expenditure advanced by some 12 percent in 1985 to the equivalent of 42 1/4 percent of GDP, up from 27 percent of GDP in 1980 and 38 percent of GDP in 1984 (Table 1). As government receipts failed to keep up with this rate of increase, the Government had borrowing needs on a commitment basis of 1 1/2 percent of GDP or, after continued repayments of domestic arrears, of 3 percent of GDP on a cash basis. In contrast, there had been budget surpluses 1/ on a commitment basis throughout the period 1979-84.

The weakening of the fiscal stance had important consequences for developments in credit and the balance of payments. Government recourse to the domestic commercial banks approached CFAF 37 billion, up from CFAF 16 billion in 1984. As the latter at the same time were faced with heavy credit demands on the part of the private sector--stemming in part from delays in payments by the public sector--and the credit program ("encadrement du crédit") remained generally accommodating, their net domestic assets expanded far beyond the increase in their domestic loanable resources. Even though private sector claims on the domestic banking system rose far ahead of the rise in money national income--largely on account of the emergence of a positive interest rate differential in favor of Gabon--for the first time in many years domestic banks had to resort extensively to central bank rediscounts as well as draw on credit lines with their head offices or correspondent banks abroad. The increase in rediscounts in turn exceeded the rise in currency in the hands of the general public, and Gabon experienced a net foreign reserve loss of CFAF 18 1/2 billion (Table 2).

With this relaxation in the stance of fiscal and monetary policy, there was a 7 percent rise in domestic expenditure. In Gabon's very open economy, most of these demand pressures spilled over into the balance of payments. As the increase in domestic spending was concentrated on consumption, gross national savings declined by some 7 percentage points of GDP. With gross investment only marginally lower than a year earlier, the balance of payments current account (excluding official transfers) moved from a surplus equivalent to 1 1/2 percent of GDP in 1984 to a deficit equivalent to 3 2/3 percent of GDP (Chart 2). 2/ The rise in monetary capital inflows and a further net

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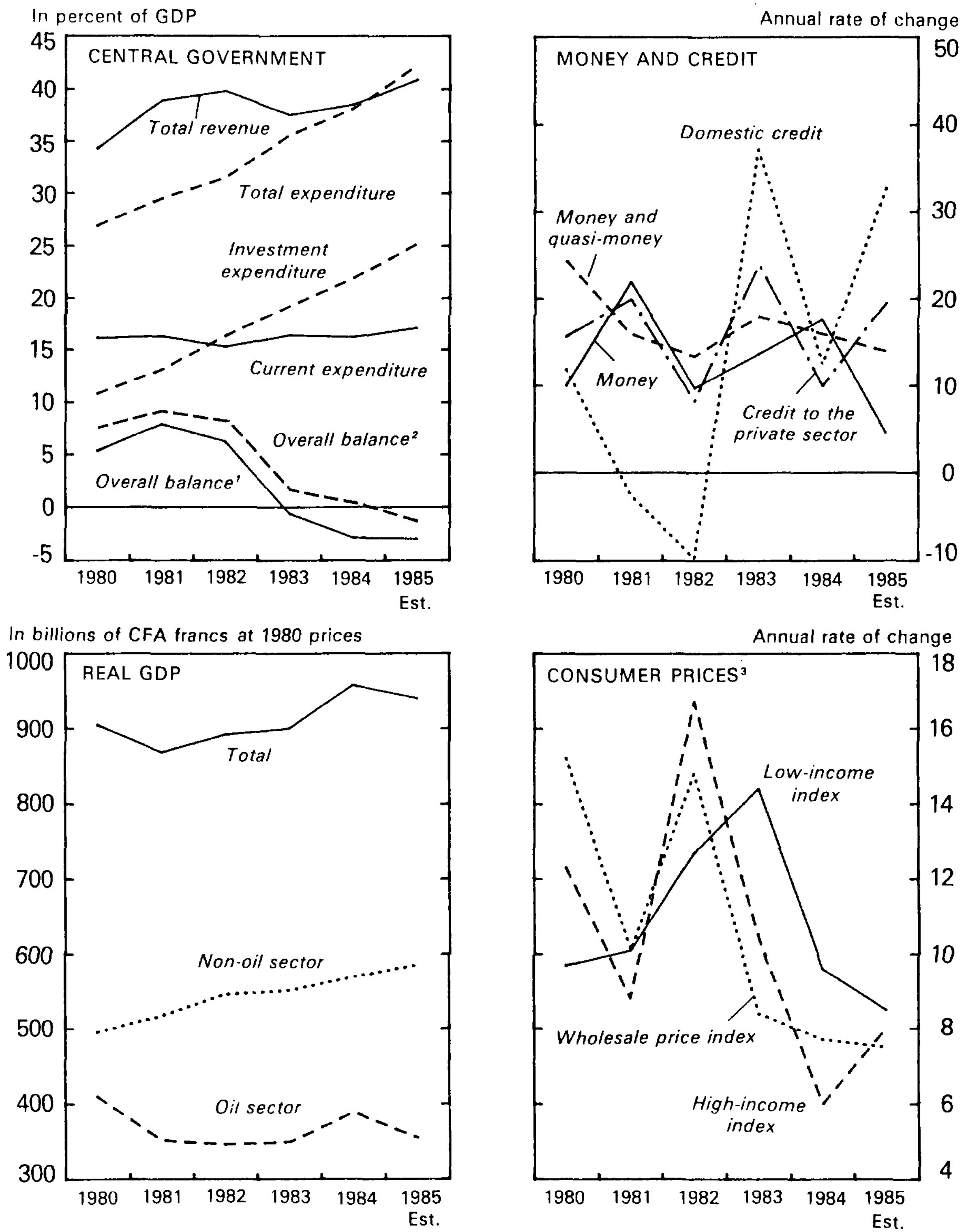
1/ Excluding off-budget expenditures unrecorded during the year they were committed and paid for as arrears in subsequent years. No data are available on the stock of arrears itself (i.e., on cumulative unpaid extrabudgetary expenditure).

2/ Or from a surplus equivalent to 2 1/2 percent of GDP in 1984 to a deficit of 3 1/3 percent of GDP if official transfers are included.

CHART 1

GABON

SELECTED ECONOMIC AND FINANCIAL INDICATORS, 1980-85



Sources: Data provided by the Gabonese authorities; and staff estimates.

¹On a cash basis.

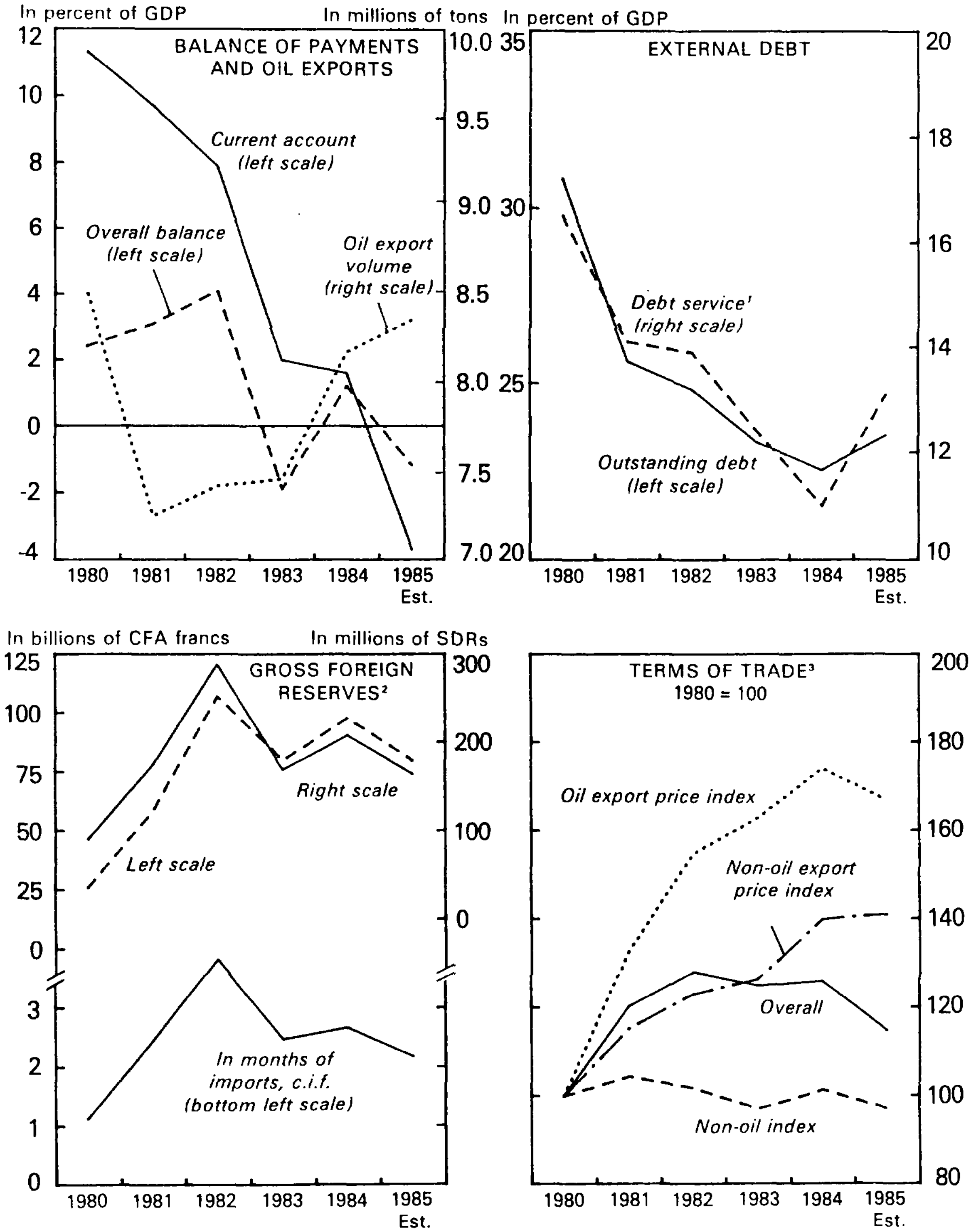
²On a commitment basis.

³Period averages.

CHART 2

GABON

SELECTED EXTERNAL SECTOR INDICATORS, 1980-85



Sources: Data provided by the Gabonese authorities; and staff estimates.

[1] As a ratio of exports of goods and services.

[2] End of period.

[3] In terms of domestic currency.

Table 1. Gabon: Financial Operations of the Central Administration, 1980-85

	1980	1981	1982	1983	1984	1985 Est.
			(In billions of CFA francs)			
Revenue and grants	310.1	408.5	473.6	482.8	587.3	628.0
Of which: Petroleum receipts	(187.3)	(271.5)	(310.2)	(311.4)	(384.6)	(397.8)
Expenditure	243.2	309.6	374.9	458.2	580.5	649.9
Of which: Current	(145.1)	(174.9)	(189.2)	(212.0)	(241.1)	(262.1)
Capital	(97.4)	(138.0)	(193.8)	(246.5)	(333.9)	(387.8)
Surplus/deficit (commitment basis)	66.9	98.9	98.7	24.6	6.8	-21.9
Arrears 1/	-19.3	-16.4	-24.8	-31.9	-50.6	-24.2
Surplus/deficit (cash basis)	47.6	82.5	73.9	-7.3	-43.8	-46.1
Financing:						
External (net)	-33.7	-41.2	-19.6	-33.8	31.8	23.5
Domestic (net)	-13.9	-41.3	-54.3	41.1	12.0	22.6
Of which: Banking system (net)	(...)	(-30.3)	(-26.7)	(26.5)	(8.0)	(37.0)
			(Annual change in percent)			
Revenue and grants	...	31.7	15.9	1.9	21.6	6.9
Of which: Petroleum receipts	(...)	(45.0)	(14.3)	(0.4)	(23.5)	(3.4)
Expenditure	...	27.3	21.1	22.2	26.7	12.0
Of which: Current	(...)	(20.5)	(8.2)	(12.1)	(13.7)	(8.7)
Capital	(...)	(41.7)	(40.4)	(27.2)	(35.5)	(16.1)
			(In percent of GDP)			
Revenue and grants	34.3	38.9	39.8	37.5	38.5	40.9
Of which: Petroleum receipts	(20.7)	(25.9)	(26.1)	(24.2)	(25.2)	(25.9)
Expenditure	26.9	29.5	31.5	35.6	38.1	42.3
Of which: Current	(16.0)	(16.7)	(15.9)	(16.5)	(15.8)	(17.1)
Capital	(10.8)	(13.1)	(16.3)	(19.2)	(21.9)	(25.2)
Surplus/deficit (commitment basis)	7.4	9.4	8.3	1.9	0.4	-1.4
Arrears 1/	-2.1	-1.6	-2.1	-2.5	-3.3	-1.6
Surplus/deficit (cash basis)	5.3	7.9	6.2	-0.6	-2.9	-3.0
Financing:						
External (net)	-3.7	-3.9	-1.6	-2.6	2.1	1.5
Domestic (net)	-1.5	-4.0	-4.6	3.2	0.8	1.5

Source: Ministry of Economy, Finance, and Participations.

1/ Corresponds to payment of (1) budget expenditure committed in the previous fiscal year (changes in payment order float) and (2) extrabudgetary expenditure committed in the current or previous years but known to the Treasury only as payment is made.

Table 2. Gabon: Monetary Survey, 1983-85

	1983	1984	1985 Est.
	(In billions of CFA francs; end of period)		
Net foreign assets	72.47	92.26	55.38
Of which: Central Bank	79.03	96.04	77.40
Net domestic assets	126.96	153.81	225.16
Net claims on public sector	-47.01	-34.30	2.85
Central Administration	(7.90)	(15.89)	(52.85)
Public institutions	(-27.97)	(-32.67)	(-42.00)
Public enterprises	(-26.94)	(-17.52)	(-8.00)
Net claims on private sector	173.97	188.11	222.31
Money and quasi-money	193.81	239.43	276.64
Counterpart SDR allocation	5.62	6.64	3.90
	(Annual changes in percent of money and quasi-money at beginning of period)		
Net foreign assets	...	10.2	-15.4
Of which: Central Bank	...	8.8	-7.8
Net domestic assets	...	13.9	29.8
Net claims on public sector	...	6.6	15.5
Central Administration	(...)	(4.1)	(15.4)
Public Institutions	(...)	(-2.4)	(-3.9)
Public enterprises	(...)	(4.9)	(4.0)
Net claims on private sector	...	7.3	14.3
Counterpart SDR allocation (-)	...	-0.5	1.1
Money and quasi-money	...	23.5	15.5

Sources: BEAC; and Fund staff estimates.

increase in government foreign borrowing were insufficient to finance this gap, and the overall balance registered a deficit in excess of 1 percent of GDP (Table 3).

In contrast, the GDP deflator rose only marginally, largely on account of the softening of export prices. Domestic price inflation, however, as measured by changes in the consumer price index for low-income households, remained at around 8 percent on the average (about equivalent to the estimated drift in domestic unit labor costs).

III. Economic Prospects

In 1985 the oil sector accounted for 42 percent of GDP, 83 percent of merchandise export earnings and some two thirds of government revenue. The recent abrupt decline in oil prices thus has brought about radical changes in Gabon's external circumstances and prospects. At last year's production rate of 8.6 million tons, a decline of US$1 per barrel in the average price of petroleum entails an income loss for Gabon of about US$62 million on an annual basis, or about 1.8 percent of GDP. Hence, should prices in 1986 remain at their average level in January (US$18-US$20 per barrel, compared with an average realized price of US$26.3 per barrel in 1985), Gabon's lost income would range between US$390 million and US$520 million, or from 11 1/2 percent to 15 percent of 1985 GDP. In addition, the CFA franc has appreciated significantly in terms of the U.S. dollar in recent months, particularly since last September (Chart 3). While the average exchange rate was CFAF 449.26 per U.S. dollar in 1985, quotations in January-February 1986 were in the range of CFAF 350-380 per U.S. dollar, resulting in a sharp drop in the local currency value of oil and other U.S. dollar-denominated tax receipts.

To assess the impact of these changes in Gabon's international environment, at the request of the authorities the mission prepared a set of "passive" simulations for the period 1986-90, i.e., on the assumption of no change in the policy stance that was maintained in 1984-85. The working hypotheses in these simulations were a price of oil in 1986-87 of US$25 (A), US$22 (B), and US$19 (C) per barrel, respectively, increasing thereafter by 4 1/2 percent a year. A fourth simulation (D), carried out at headquarters after the return of the mission, takes developments in the second half of February into account and is based on an average price of US$16 per barrel in 1986-87. For reasons of convenience, the volume assumptions were made identical in all four simulations 1/ and correspond to the projections the Ministry

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1/ Admittedly an optimistic proposition for, below a certain export price and with an unchanged tax regime, oil operators would produce a negative cashflow and therefore would have to bring in substantial capital from their head offices to carry out the development expenditure necessary to the attainment of these production levels over the medium term.

Table 3. Gabon: Balance of Payments, 1980-85

(In billions of CFA francs)

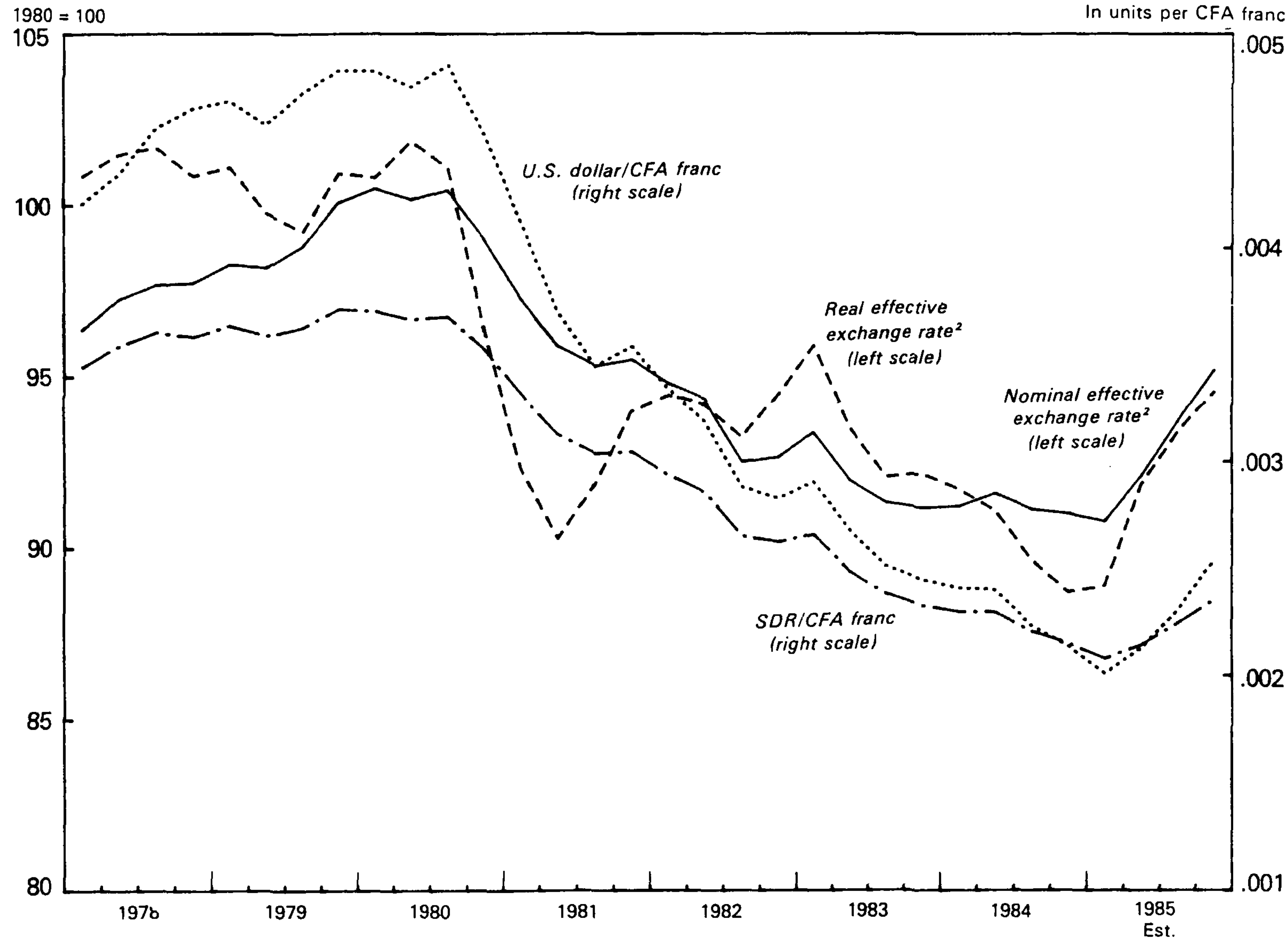
	1980	1981	1982	1983	1984	1985 Est.
Exports, f.o.b.	534.84	597.87	709.92	762.18	881.70	862.50
Of which: oil	(413.30)	(485.20)	(592.00)	(629.50)	(735.70)	(715.00)
Imports, f.o.b.	-174.95	-228.58	-237.46	-276.47	-320.37	-362.00
Trade balance	359.89	369.29	472.46	485.71	561.33	500.50
Services (net)	-224.70	-241.98	-351.34	-424.16	-495.96	-514.70
Private unrequited transfers (net)	-33.27	-25.31	-27.46	-36.24	-40.40	-43.00
Current account balance (excluding public transfers)	101.92	102.00	93.66	25.31	24.97	-57.20
Public unrequited transfers (net)	7.04	7.61	7.97	2.15	11.07	7.00
Current account balance (including public transfers)	108.96	109.61	101.63	27.46	36.04	-50.20
Capital account	-81.81	-69.24	-13.12	-30.10	-5.85	42.10
SDR allocation and exchange rate guarantee	0.85	0.99	6.10	9.88	12.57	4.67
Errors and omissions and valuation adjustment	-6.67	-9.24	-46.18	-31.43	-25.19	-14.57
Overall balance	21.33	32.12	48.43	-24.19	17.57	-18.00

Sources: BEAC; Ministry of Economy, Finance, and Participation; and Fund staff estimates.

CHART 3

GABON

MOVEMENTS OF THE EXCHANGE RATE AGAINST SELECTED CURRENCIES, 1978-85[1]



Sources: IMF, *International Financial Statistics;* and staff calculations.

[1] Decline in index denotes depreciation of CFA franc

[2] Trade-weighted.

of Mines and Hydrocarbons has developed on the basis of recent exploration activity and prospects for investment by the oil companies operating in Gabon. These estimates are 59.6 million barrels in 1986, 60.4 million barrels in 1987, 59.8 million barrels in 1988, 57.9 million barrels in 1989, and 57.8 million barrels in 1990. In all scenarios, the average exchange rate was assumed at CFAF 375 per U.S. dollar, although a sensitivity analysis was also carried out at an average rate of CFAF 350 per U.S. dollar.

The most significant results of these simulations are summed up in Charts 4 and 5. The prospective contraction in export earnings during 1986-87 ranges from 22 percent in simulation (A) to 44 percent in simulation (D), followed by a modest recovery in subsequent years. Gross domestic income, which past experience shows tends in the short run to follow a path very similar to that of the oil sector, would be expected to decline by between 22 percent and 39 percent in nominal terms and to return to modest positive growth rates thereafter; and government tax receipts would plummet by between 32 percent and 60 percent, remaining stagnant in the period through 1990.

An important finding is that, even under the most optimistic assumption of virtual stability in the oil price (simulation A), there already would be a need for substantial corrective measures because of the high momentum of spending during the period 1982-85--propelled in large measure by work on the TransGabon railway--and of the appreciation of the CFA franc. A fortiori, if oil prices were to fall to an average of US$19 or US$16 per barrel, the budget deficit and the deficit on the current account of the balance of payments--assuming unchanged rates of government expenditure and imports--would immediately reach unmanageable levels (13 percent and 25 percent of 1985 GDP, respectively). These deficits would be made the worse by any appreciation of the CFA franc against the U.S. dollar beyond the baseline assumption of CFAF 375 per U.S. dollar. For instance, under simulation (A) it is estimated that at CFAF 350 per U.S. dollar the CFAF value of exports would drop by a further 6 percent and government receipts by some 3 percent.

IV. Report on Discussions

Policy discussions took place against the backdrop of these simulations, which the authorities said yielded results generally similar to those they had arrived at in separate exercises. In their view, one important purpose of the mission had been to provide an independent assessment of Gabon's situation and prospects that would confirm--but also possibly challenge--their own diagnosis. However disturbing the outcome of this assessment, it indicated that they had properly gauged the seriousness of the difficulties looming ahead. They believed, therefore, that they were correct in proposing a major adjustment of economic policy to prevent exposing the price level and the balance of payments to unsustainable pressures, and avoid resorting to external borrowing on a scale incompatible with Gabon's prospective debt-servicing capacity.

The authorities observed that Gabon's membership in a monetary union prevented it from acting directly on the exchange rate to reduce real domestic expenditure and reorient resources toward tradables other than oil. Adjustments in the currency's real effective exchange value, therefore, could only come from a drastic tightening of domestic demand management and from accelerated efforts to bring production costs in the non-oil economy down to a level that would restore the external competitiveness of that sector. They acknowledged that this adjustment could very well be as painful as that carried out in the aftermath of the 1976 crisis, when real GDP had dropped in two years by more than one third. Yet they were determined to take all measures necessary to see Gabon through its current predicament, while preserving prospects for future income growth by rapidly adjusting policies toward the non-oil sector.

1. Fiscal policies

To provide for an orderly retrenchment of domestic expenditure, the authorities believed it necessary to proceed with an immediate adjustment of the fiscal stance. Fueled by ample oil resources, government spending in recent years had reached levels that clearly could not be sustained for long, and the need for a reduction in government claims on resources already had been recognized before the fall in oil prices. The recently approved 1986 budget (which had been formulated originally in mid-1985) 1/ indeed called for a 6 3/4 percent reduction in the nominal level of government spending. The budget, however, had been superseded by events. This reduction was now recognized as insufficient, and additional measures were required. In the event, a first package of measures was finalized at the very time the mission was in Libreville and was announced by the President of the Republic on February 7, 1986.

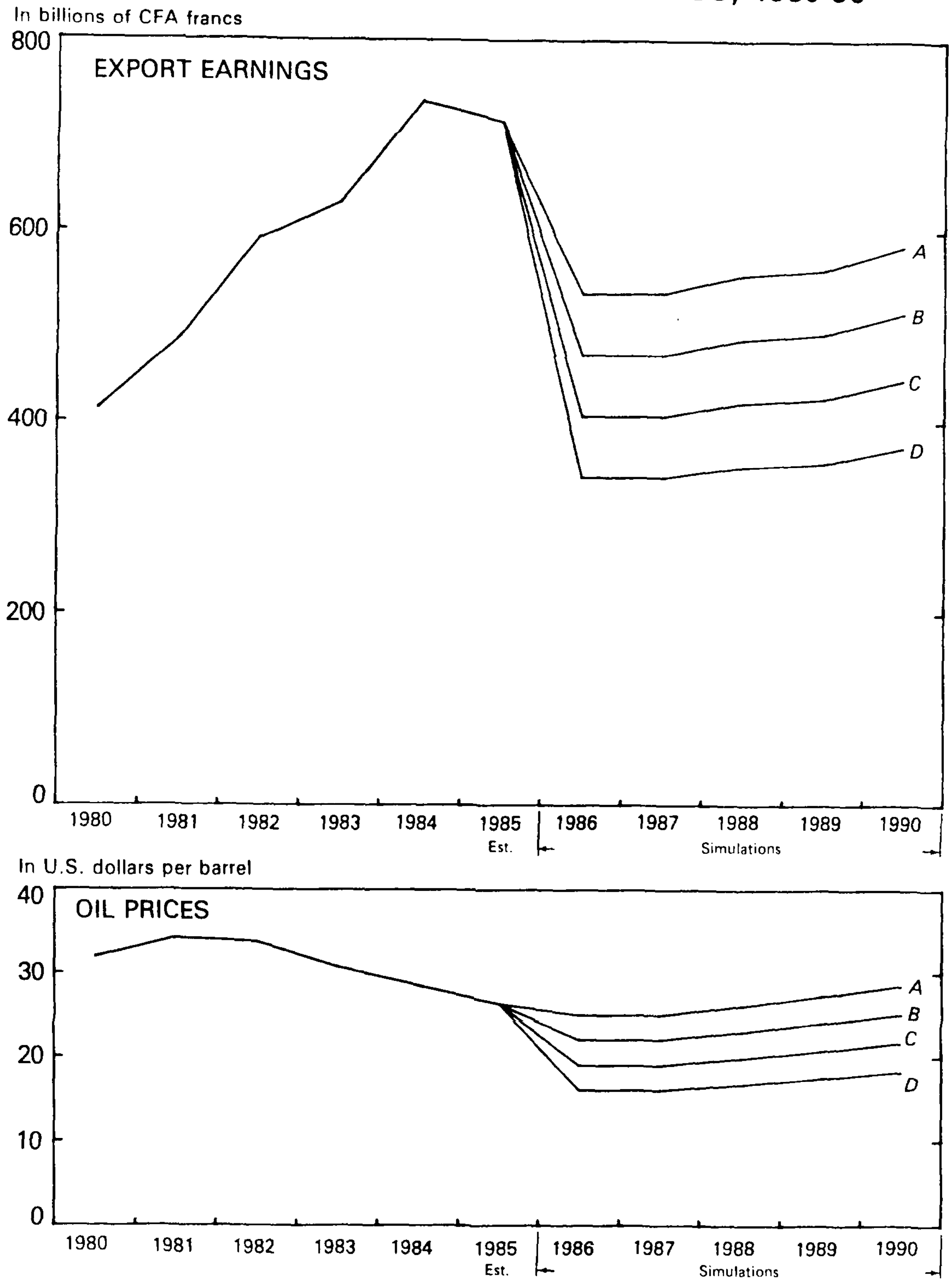
At the core of these measures is a reduction of nearly CFAF 70 billion in spending plans for 1986 and of CFAF 120 billion in 1987--4 1/2 percent and almost 8 percent of 1985 GDP, respectively. To prevent the investment budget from bearing the whole brunt of these economies, current expenditure is to be curtailed by CFAF 18 billion in the first year and by CFAF 30 billion in 1987, the ultimate objective being to hold the current budget to no more than the equivalent of non-oil receipts. As regards investment spending, all tendering procedures already initiated or contracts already concluded on projects not included in the 1986 budget are to be halted or canceled; execution of a number of budgeted investment programs is to be stretched out over a longer period than had originally been envisaged; a "Special Commission for Economic and Financial Coordination," set up in August 1985 and

1/ Gabon's fiscal year coincides with the calendar year.

CHART 4

GABON

OIL PRICES AND EXPORT EARNINGS, 1980-90[1]



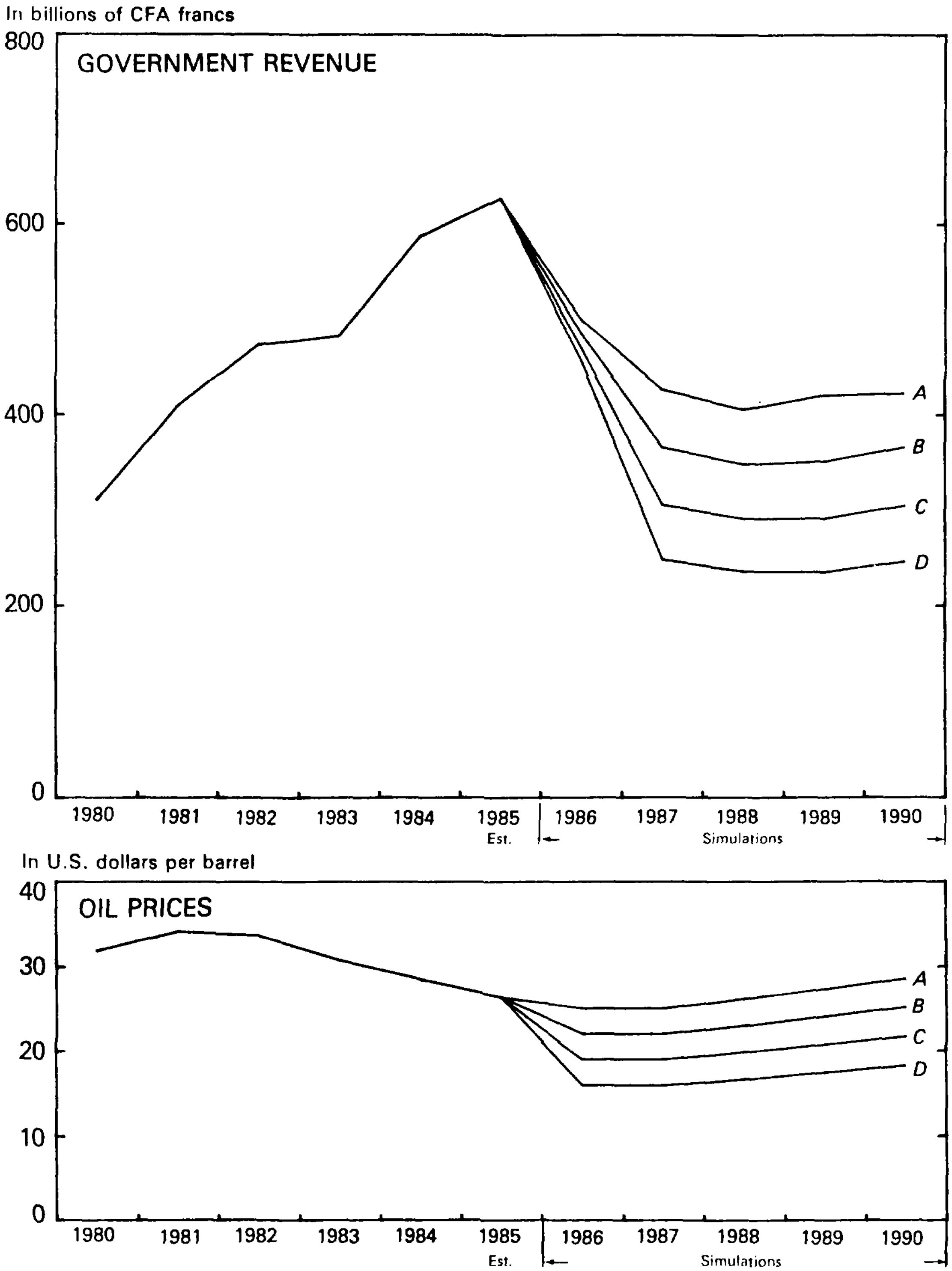
Sources: Data provided by the Gabonese authorities; and staff estimates.

[1]Simulations are based on the following assumptions regarding oil prices per barrel – A: $25; B: $22; C: $19; D: $16.

CHART 5

GABON

OIL PRICES AND GOVERNMENT REVENUE, 1980-90[1]



Sources: Data provided by the Gabonese authorities; and staff estimates.
[1]Simulations are based on the following assumptions regarding oil prices per barrel — A: $25; B: $22; C: $19; D: $16.

chaired by the Director of the Treasury (nominally the Minister of Finance), has been made responsible for examining all decisions by official entities that would entail direct or indirect government financial intervention; and, to put an end to extrabudgetary spending, the Minister of Finance has been confirmed as the only authority empowered to commit expenditure and engage in domestic or foreign borrowing on behalf of the Government.

Asked about the feasibility of effectively carrying out these measures, the authorities remarked that the need for budget savings this year would be mitigated in part by the approximately one-year lag in the settlement by the oil companies of their income tax liabilities. At the same time, work on the Franceville leg of the TransGabon railway, which had pre-empted some CFAF 120-130 billion a year in 1984-85, or 38-40 percent of the total investment budget and over 8 percent of GDP, was to be completed by the end of 1986--after which maintenance expenditure would not be expected to exceed some CFAF 20-30 billion annually. (The project of a third leg from Booué to the iron ore deposits of Belinga had been shelved for the time being because of the depressed conditions in the world iron ore and steel markets.)

The authorities also remarked that there was room for economies in current expenditure, which in the last five years had increased about one third faster than nominal GDP. They referred in particular to the possible curtailment of outlays for rents on housing for civil servants, air fares for expatriates, foreign travel by officials, and official vehicles, and to an effort to improve the financial position of the public enterprises. In the last few years, the rest of the public sector had begun to exert pressures on the budget--albeit one that remained small in absolute terms. Accordingly, "contrats-programme" had been, or were in the process of being agreed with a number of parastatals. Under these arrangements, state enterprises undertook to develop and implement rehabilitation plans involving cost compression, streamlining of personnel, and tariff adjustments in exchange for a one-time reinjection of capital on the part of the Government, with a view to returning to financial viability in accordance with a pre-established schedule. Also, there would be no across-the-board wage raises in the public sector.

On this last point, the mission remarked that, depending on the magnitude and duration of the decline in oil prices, employment and salary levels in the public sector might soon prove incompatible with Gabon's available resources. The Government hence might well have to review its wage and recruitment policy before long. 1/ The mission also noted that a restrained government wage policy probably would have a dampening influence on private sector remunerations, which in turn would

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1/ In the past five years, government employment (principally teachers and health workers) increased at a 4 2/3 percent average annual rate, while nominal salaries rose by about 10 2/3 percent a year.

help spread the cost of adjustment to a lower income level and mitigate its impact on employment. Moreover, it would assist in lowering production costs in the non-oil economy and thus strengthen Gabon's competitiveness and the prospects for a resumption of real income growth. The authorities said that they did not disagree with this view; but they thought that the oil market situation would have to stabilize before additional steps could be considered, including a more extensive, and politically very difficult, reappraisal of wage policy.

At almost 35 percent of GDP in 1985, Gabon's tax burden is very high, and non-oil tax receipts still amount to close to 23 percent of non-oil GDP. There is little scope, therefore, for enhancing revenue by way of discretionary measures. Officials remarked, however, that tax avoidance and tax evasion had become more widespread in recent years and that there might be room to close loopholes and reincorporate tax evaders into the tax base. Attention indeed had been given for some time to improving tax administration in the non-oil sector; and there was a possibility that technical assistance might be requested from the Fund to assist in this endeavor.

2. Monetary policy

As in 1985, monetary developments in coming years would be influenced in large measure by the fiscal stance. To an extent, the authorities noted, government pressures on financial resources in 1985 had been accommodated by the robust growth of real money balances, with money and quasi-money increasing by 16 percent in the face of stagnant money income. They ascribed this development in part to the slowdown in domestic inflation as nominal wage increases had been only half as large as in 1984 and inflationary expectations therefore had tended to abate. But, more importantly, they saw it as the result of the appreciation of the CFA franc over the course of the year and, as money market conditions improved in industrial countries, of the emergence of a positive interest rate differential in favor of Gabon--in spite of the fact that maximum nominal interest rates had remained capped at 13 percent. (In particular, there had been sizable arbitrage by oil operators in favor of deposits with the domestic banking system.) In addition, the measures of July 1985, whereby interest ceased altogether to be paid on private sector sight deposits while the rate of remuneration was raised on term deposits depending on the amount of the deposit and its duration, had been instrumental in engineering a strong increase in quasi-money.

Yet, despite the improvement in money demand, the combined pressures of the private and public sectors on the domestic banking system had resulted in a foreign reserve loss. One reason for this external outcome had been that the quantitative restrictions on commercial bank credit growth imposed by the monetary authorities did not encompass bank lending to the Government, and the latter had risen rapidly to finance extrabudgetary expenditure. A related reason was that the ceiling on central bank rediscounts to banks remained at such a level that banks in practice had not been limited in their access to central bank refinancing.

With the decline in money GDP that appeared likely in the period ahead, the authorities noted that much uncertainty surrounded future demand for money by the private sector. A stable velocity of money a priori would entail an absolute decline in nominal M_2, assuming instantaneous adjustment of actual to desired money. However, the process of monetization of oil revenues via the oil companies' income tax payments and government expenditure lagged the changes in oil income by up to one year; it thus was possible that nominal money balances would change little or even continue to grow somewhat in 1986, especially if interest rate differentials remained positive, while declining thereafter if oil prices remained low. It was noted in this respect that the experience of the 1970s suggested that velocity could prove quite unstable, and actually drop markedly in a period of recession. 1/ All in all, despite the prevailing uncertainties, it was clear that, to avoid major external payments difficulties, domestic credit growth would have to remain very tight and carefully attuned to the behavior of the demand for money.

While in general agreement with this analysis, the mission remarked that there was a potential inconsistency between the available room for central bank credit expansion under the applicable statutory limits and current discretionary ceilings and Gabon's eventual use of its foreign reserves (independently of the question of whether such use was desirable or not). The ceiling on central bank rediscounts still allowed for some CFAF 46 billion in refinancing to local commercial banks over and above its level at the end of 1985, while the Treasury still held about CFAF 34 billion in deposits with the Central Bank. In addition, the Treasury had potential access to central bank advances equivalent to 20 percent of last year's budget receipts of domestic origin, or around CFAF 120 billion. These margins for credit expansion contrasted with a level of net official foreign holdings of some CFAF 77 billion at the end of December 1985, so that their use on any sizable scale would likely have serious implications for Gabon's external position.

The authorities acknowledged that balance of payments considerations placed a much tighter constraint on credit expansion than the statutory and current discretionary limits on central bank lending. They also were aware that Gabon accounted for a large portion of the net external assets of the BEAC and that a depletion of its foreign exchange position might have repercussions at the regional level. Accordingly, their intention was to attempt not to resort to central bank advances.

1/ Broad money for instance had risen from the equivalent of 18 1/2 percent of GDP in 1976 to almost 21 percent of GDP in 1978, the trough of the recession when real GDP was only two thirds, and money GDP three fourths, of their respective levels two years earlier.

They also agreed that there was a need to bring commercial bank credit to the Government within the same system of "encadrement du crédit" as private sector credit and to develop a comprehensive monetary program that would reconcile total demands for financial resources from the public and private sectors with prospective resource availability.

It nevertheless was noted that the circumstances of 1986-87 probably would make it difficult for the banks and the Government to abstain altogether from having some net recourse to central bank credit--in the latter case, if only through use of the Treasury's sizable deposits--and thus to avoid completely a foreign reserve loss. The mission therefore stressed the importance of carefully monitoring developments in financial intermediation and, if need be, of adjusting monetary policy instruments. In particular, access to the rediscount window might have to be curtailed and the "encadrement du crédit" tightened. Alternatively, a full-fledged system of legal reserve requirements might usefully replace the currently ineffective liquidity ratios. 1/ Emphasis also was placed on retaining savings within Gabon by maintaining a positive interest rate differential vis-à-vis foreign financial markets.

3. Labor market policies

The authorities observed that, to prevent a surge in unemployment, the planned tightening of demand management would have to be supported by a restrictive wage policy. With the sharp improvement in Gabon's terms of trade following the rise of oil prices in the 1970s, wage policy had become one of the main conduits for the channeling of the oil income to the rest of the economy. However, after five years during which the government wage bill had risen at an annual average rate in excess of 15 percent, it had become clear that, as noted above, no significant saving on current expenditure could be achieved without much greater restraint in salary awards. At the same time, indications were that trends in remunerations in the non-oil private sector--which were known with a much lesser degree of certainty--were related closely to those in the oil and public sectors. Changes in the minimum wage (SMIG), moreover, tended to place a floor on salary movements and, in the period 1978-84, the SMIG had increased at an annual average rate of some 14 percent, far above the annual average rise in output and productivity. Only in 1985 had the rise in the minimum wage been kept to less than 7 percent, still a large increase in a year when output had declined. Gabon thus had not escaped the effects of the "oil syndrome," with the result that it had rapidly lost competitiveness in markets other than oil, including the processing of its other natural resources.

1/ For a description of monetary policy instruments, see Appendix V to the accompanying report on Recent Economic Developments.

In a situation where prospects for resumed growth depended heavily on the restoration of competitiveness of the non-oil sector, it was noted that the authorities would have to intensify their efforts to rein in production costs in general and labor costs in particular. Accordingly, the mission cautioned against the authorities committing themselves to any precise wage policy in formulating adjustment measures and, given the very high levels of remunerations at the upper end of thecivil service and private sector salary scales, remarked that some downward adjustments might very well prove necessary.

Aside from greater prudence in wage policy, the necessary reduction in unit labor costs also would hinge importantly on efforts to enhance labor productivity. The educational system, in particular, would have to be geared better to the economy's needs, with emphasis placed on vocational training and on developing intermediate technology skills. Progress in these directions would help Gabon to lower its real effective exchange rate and reduce the gap between domestic production costs and those in competitor countries.

The authorities were in general agreement with this diagnosis. Indeed, partly because of the priority given to, and/or of overruns on infrastructure and general purpose expenditure, the objectives of the 1984-88 development plan in the area of education had not been met. However, as spending priorities were being reordered in the framework of the recently announced economies, government intentions were to give greater weight to improved professional training. Educational programs also would be reassessed to adjust them better to the manpower requirements of the non-oil sectors and enhance intermediate skills in which Gabon's labor force was severely lacking. Specific reference was made in this respect to the need to train labor for the fishing industry, which had significant potential but where activity was mostly in the hands of expatriates, and for the agro-industrial sector.

As regards wage rates, the authorities were aware of the link between remuneration levels and the lack of competitiveness of the Gabonese economy vis-à-vis the rest of the world. However, government attention had yet to focus on what should be the desirable stance of incomes policy. In his message of February 7, 1986 the President of the Republic indeed limited himself to indicating that current salary levels would remain unchanged for the time being.

4. Resource allocation policies

Gabon's ability to overcome the difficulties that appeared to be in prospect for the next few years and to return to a sustainable growth path also would depend in good measure on a successful reorientation of resources toward the non-oil economy. Since 1980 the latter had grown at an estimated 3 percent average annual rate, but mostly in sectors related to oil and government activities such as oil services, construction, transportation, and public administration. Moreover, execution of the development plan not only had fallen short of targets in the area of education but also had failed to meet its objectives in the productive sectors. In particular, too little emphasis had been placed on agriculture and industry, the two potential candidates for a non-oil based growth. Also, these sectors had been adversely affected by the general upward pressure on wages and salaries in the economy.

The need for a major retrenchment in spending of course would call for a general reassessment of the quantitative targets of the plan, including a stretching out of project execution and a rescheduling of those projects that were about to leave the drawing board. The planning authorities were also considering a move toward a system of three-year rolling development programs that would provide for a more flexible mechanism to control and adjust public investment to changing circumstances. The intention, however, was to proceed not only to a downward revision of capital expenditure but also to reorient outlays. It was noted in this connection that the completion of the TransGabon railway toward the end of this year would release important resources for other undertakings, at the same time that it would remove a major source of rigidity in the investment budget. Also, in his address of February 7, 1986, the President of the Republic stressed that priority now was to be given to projects in mining, agriculture, and forestry--including in the latter case equity participations in firms engaged in lumber processing.

Efforts simultaneously would be geared to enhancing the efficiency of resource use. Considerations of economic return often had been overlooked in past investment decisions, causing many projects to increase consumption expenditure in the form of government support for operations. This in part had stemmed from the need to open up the country, where population and primary sector activities were widely scattered, through infrastructure projects of limited immediate profitability. But, with available resources becoming scarcer, much greater importance now had to be attached to rigorous project identification and evaluation so that investment spending could contribute effectively to enhancing the growth prospects of the non-oil economy. The recent and successful development of rubber tree cultivation and expansion of oil palm plantations bode well for the results of these efforts. Hopes were for similar systematic project selection to bear fruits in the timber and fishing industries and in food processing. An obstacle that remained, however, was the lack of trained personnel for proper project identification and evaluation. Accordingly, the authorities hoped that they would be able to count on increased foreign technical assistance, including from the World Bank, to help in this effort (even though Gabon was not eligible for World Bank project or policy-based lending owing to its high per capita income).

A key to sound economic development and rational investment decisions was the maintenance of a relative price structure free of distortions. An important step in this direction had been taken in January 1985 when the price freeze imposed in 1984 had been lifted. Although administered prices remained widespread, a large measure of flexibility had been exercised in 1985 in adjusting them, with producer prices rising by between 12 percent and 16 percent for key commodities--in all cases well ahead of consumer price inflation. These increases, however, had not been sufficient to restore real producer prices (deflated by the low-income consumer price index) to their 1980 level. Government intentions therefore were to continue with this flexible policy in order to provide incentives to domestic production, especially of those staples that could easily substitute for imports.

In contrast, rigidities had tended to intensify in the pricing of goods and services produced or marketed by public institutions and enterprises. As prices lagged behind costs, the financial position of the nongovernment public sector in the aggregate had deteriorated, resulting in growing recourse to government transfers and to domestic bank credit. The authorities were not unduly alarmed by these emerging imbalances, which, they stressed, remained relatively small. They agreed, however, that the trend gave cause for concern and needed careful monitoring. A difficulty was that only limited information was available on the financial operations of the nongovernment public sector. Accordingly, they took under advisement the mission's recommendation that an effort be made to gather information systematically on the financial transactions and cashflows of the principal public institutions and enterprises, and to consolidate their operations with those of the rest of the public sector. This would allow for a clearer view of the financial position of the entire nonfinancial public sector and of the eventual need for cost containment and corrective price action.

5. External policies

Consistent with their objective of improving resource allocation, the authorities indicated that they placed a high priority on maintaining an open economy. In general, imports from member countries of the Central African Customs and Economic Union (UDEAC) were free of any formalities, while imports from other countries required either an authorization to import or a license to import. In practice, licenses were granted liberally, with but a few exceptions, and the policy was to minimize distortions in the market place by encouraging competition among potential foreign suppliers. Also, the exchange system would continue to remain free of restrictions on payments and transfers for current international transactions.

Regarding external borrowing policy, the authorities recalled that their objective of gradually reducing the stock of outstanding external debt had been generally successful until 1983. The adjustment measures that had become necessary in the late 1970s (following a rise in outstanding debt from SDR 952 million at end-1976 to SDR 1,180 million at end-1979) had led to a substantial reappraisal of external borrowing policies. As a result, outstanding external debt had declined to the equivalent of 23 percent of GDP by 1983 (from 49 percent in 1979 and 31 percent in 1980). In addition, it was pointed out that the external debt service ratio--at 12 percent in 1983--was among the lowest in Africa. The authorities agreed that the policy of net debt repayment had been less successful during 1984-85, when the outstanding debt had risen by an average of 12.5 percent per annum to SDR 870 million; but they pointed out that, as a ratio of GDP, external debt had remained about unchanged, and the debt-servicing ratio, at 13 percent, was still acceptably low. Also, the acceleration of work on the TransGabon railway had resulted in a bunching of disbursements in the past two years.

In discussing the medium-term outlook, the authorities expressed their concern that the abrupt decline in oil prices, and therefore in budgetary receipts, could not be realistically covered solely by adjustment measures. Given the investment projects already under way and the decision to complete the second leg of the TransGabon railway by end-1986, a modest amount of net external borrowing was to be expected during 1986-87. As a result, outstanding public external debt was likely to rise substantially in relation to GDP (reflecting the prospective decline in domestic income), and debt servicing was also expected to rise in terms of exports of goods and services.

The authorities, nevertheless, remained very much aware of the dangers of excessive recourse to foreign financing, and the President has in fact entrusted the Minister of Finance with the sole and final responsibility for contracting external debts, with a view to protecting the country's foreign reserve position and maintaining its external creditworthiness. One particular source of danger was mentioned at the highest level; despite the decline in oil prices, foreign creditors and suppliers still considered lending to Gabon an attractive option in the present economic climate, and offers continued to be received for projects of dubious economic value. This made it all the more difficult politically to muster arguments against relying on more financing and less adjustment to cope with the prospective deterioration of the balance of payments. In the authorities' view, a policy of prudent external borrowing had been made more imperative than ever by the anticipated decline in exports, budgetary revenue, and national income. Future guidelines hence would emphasize that recourse to foreign loans would be considered solely on the economic merits of the proposed investment projects so as to protect Gabon from the debt servicing difficulties, and eventual need for debt renegotiation, experienced by a number of other countries.

V. Staff Appraisal

After a strong recovery in 1984 from the difficulties of the previous year, Gabon's economic and financial performance deteriorated markedly in 1985. Continued expansionary demand management in the face of declining output and worsening terms of trade caused the budget position to weaken and the balance of payments current account to swing from a surplus into a deficit by the equivalent of almost 6 percent of

GDP. Despite an increase in net capital inflows the overall balance of payments deficit exceeded one percent of GDP.

Even without changes in Gabon's external environment the need for corrective action already was present. With the recent abrupt decline in oil prices and the steady appreciation of the CFA franc in terms of the U.S. dollar, major adjustment measures cannot be further postponed. Each US$1 decline in the price of oil entails a loss of income equivalent to some 1.8 percent of 1985 GDP, and the oil price has dropped from an average of US$26.3 per barrel last year to around US$16-17 in February 1986 and even further in subsequent weeks.

The speed at which the contraction in oil income will be felt in the rest of the economy is difficult to predict because of the lag in oil companies' income tax payments. If the experience of the past 15 years--in particular that of the crisis of the mid-1970s--is any guide, the impact of this income loss is likely to be felt relatively rapidly, even if the government budget stricto sensu is expected to be affected much more severely in 1987 than this year. In any event, over the two year period 1986-87, export earnings would be expected to fall by between US$250 million and US$380 million depending on whether oil prices drop to an average of US$22 per barrel or to US$16 per barrel--and of course even further should the oil price settle at an even lower average. Such a decline, in turn, would result in a contraction of gross domestic income of between 28 percent and 39 percent from its level in 1985, and in a fall in government receipts of 42 percent to 60 percent. These estimates are based on an average exchange rate of CFAF 375 per U.S. dollar but would have to be lowered further should the CFA franc continue to appreciate in terms of the U.S. dollar.

Gabon has little room to cushion the impact of this reversal in its external circumstances. Large scale government recourse to domestic bank financing, in a situation where nominal money balances are unlikely to grow and indeed may very well decline, would result in such pressure on the balance of payments as to cause Gabon's net foreign reserves--now at slightly more than two months of imports--to turn negative in a matter of months. At the same time, access to foreign borrowing, which so far has been preserved by a prudent policy, while not to be ruled out, will be severely constrained by the decline in tax receipts and export earnings.

The authorities have made a prompt and realistic assessment of the seriousness of the situation, and they have indicated their intention to carry out a policy of orderly retrenchment in spending and of rapid reorientation of resources toward those sectors most susceptible to assist in the diversification of the economy. Indeed, it is only on these conditions that prospects will be preserved for a gradual return to sustainable economic growth in a context where oil is no longer expected to play the same dominant role as in the past 15 years.

Expenditures are to be curtailed in such a way that current spending eventually can be financed solely from non-oil tax receipts, resort to central bank advances is generally to be avoided and net recourse to foreign borrowing is to be kept within limits consistent with Gabon's prospective debt-servicing capacity. To this end, authority for spending and borrowing has been concentrated once more in the Ministry of Finance; extrabudgetary operations have been suspended; and a special interministerial commission has been vested with the responsibility for coordinating all initiatives bearing on the public finances before making final recommendations to the Minister. Moreover, the President of the Republic has announced spending cuts in 1986 and 1987 amounting to the equivalent of 4 1/2 percent and almost 8 percent, respectively, of 1985 GDP.

These economies, which are to be realized in the current and the capital budgets, clearly are headed in the right direction. The accompanying measures also will make the management of the public finances more transparent and efficient. The staff would want to note, however, that the reduction in expenditure that has been announced is unlikely to offset the expected decline in government revenue. These economies indeed would seem to be sufficient only if oil prices were to return to around US$24-25 per barrel, a level significantly higher than the one prevailing in the early months of 1986 or the likely average for 1986-87. It is crucial, therefore, that the authorities be prepared to maintain flexibility and not hesitate to take additional action should conditions in the oil and foreign exchange markets remain more nearly like those prevailing in the first quarter of 1986. To be sure, the completion by the end of this year of the second leg of the TransGabon railway should provide an important assist in keeping spending within manageable limits from 1987 onward. But, at CFAF 122 billion, expenditure on the TransGabon will maintain a substantial element of rigidity in this year's budget. A closer review of current expenditure therefore may prove necessary if other investment plans are not to be sacrificed unduly. Given the more than 21 percent annual average rise in general government consumption since 1980, there should be ample room for economies in current spending, including the wage bill and transfers to other levels of government. Also, action ought to be taken to strengthen the financial position of the public enterprises in order to reduce the need for subsidies. Finally, a detailed inventory of outstanding domestic arrears should be undertaken and measures be adopted to provide for their gradual elimination and to prevent the emergence of new arrears.

It remains uncertain, however, whether the authorities will be able to meet the ambitious objectives they have set for themselves in terms of budget and balance of payments adjustment, especially in the next two years. The staff warmly endorses their intention to maintain prudence in resorting to external borrowing; it would want to stress that the guiding consideration in this area must be the prospective rate of return of projects eligible for foreign financing. Although some limited use of domestic bank credit, and a further decline in Gabon's net foreign assets, may prove unavoidable, prudence should remain of the essence. Even if some use of domestic and external financing were to be considered in the early phases of the process of adjustment, the staff would urge that it be in the context of policies that would (1) maintain a safe minimum level for the net foreign assets; (2) attune bank credit use to private sector demand for money; and (3) ensure that the budget and external balances return to equilibrium by 1988-89 at the latest.

Important conditions for adherence to such a path of fiscal and balance of payments adjustment and for an eventual return to sustainable economic growth are that resources be promptly released for investment in the non-oil economy and that much greater emphasis be given to the efficient use of these resources. The authorities are aware of these conditions, and the President of the Republic already has announced that investment projects henceforth would emphasize the development of the mining, farm, agro-industrial, and forestry sectors. Greater attention also ought to be given to the quality of projects, an area where the record has been mixed in past years. Should there be a need for technical assistance in this area, the staff would hope that Gabon could count on the requisite external expertise and support in the training of local staff.

Yet, efficient resource use, in a context where available resources are shrinking, will not in itself be sufficient to help Gabon out of its predicament. Since the early 1970s, the liberal rechanneling of the oil income to labor has greatly reduced Gabon's competitiveness vis-à-vis the rest of the world, including other members of the monetary union. This loss of competitiveness has been made the more acute by the recent appreciation of the CFA franc in terms of the U.S. dollar. As Gabon does not have control over its nominal exchange rate, every effort should be made to lower production costs, and unit labor costs in particular, to a level that can allow Gabon to compete in tradables other than oil. Considerable restraint in wage policy will have to be at the core of this effort, including possibly nominal reductions at the upper end of the salary scales. But attention also will have to be given to enhancing productivity by channeling resources toward vocational training, adjusting educational programs better to the needs of the Gabonese economy, and opting for projects that would yield sufficient economies of scale to improve international competitiveness.

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

VI. Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

1. The Fund takes this decision in concluding the 1986 Article XIV consultation with Gabon, in light of the 1986 Article IV consultation with Gabon conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund notes with satisfaction that Gabon continues to maintain an exchange system that is free of restrictions on payments and transfers for current international transactions.

Gabon - Relations with the Fund

(As of February 28, 1986)

I. Membership Status

(a) Date of membership	September 10, 1963
(b) Status	Article XIV

A. Financial Relations

II. General Department

(a) Quota	SDR 73.10 million
(b) Total Fund holdings of Gabon's currency	SDR 73.08 million (99.97 percent of quota)
(c) Reserve tranche position	SDR 0.03 million
(d) Fund credit	--
(e) Current operational budget (maximum use of currency)	--

III. Current Stand-By or Extended Arrangement and Special Facilities

(a) Current stand-by or extended arrangement	None

(b) Previous stand-by or extended arrangement during the past 10 years

Arrangement	Date	Duration	Amount	Utilization
Stand-By Arrangement	May 31, 1978	one year	SDR 15 million	SDR 15 million
Extended Fund Facility	June 27, 1980	30 months	SDR 34 million	--

(c) Special facilities	No use in last 10 years

IV. SDR Department

(a) Net cumulative allocation	SDR 14.1 million
(b) Holdings	SDR 0.14 million (1.0 percent of net cumulative allocation)
(c) Current designation plan	--

V. Administered Accounts

Trust Fund loans	
(i) Disbursed	--
(ii) Outstanding	--

VI. Overdue Obligations to the Fund --

B. Nonfinancial Relations

VII. Exchange Rate Arrangement

Gabon's currency is the CFA franc, which is pegged to the French franc at the fixed rate of CFAF 1 = F 0.02.

VIII. Last Article IV Consultation

Discussions were held by the staff in Libreville during November 22-December 8, 1984. The staff report (SM/85/52, February 12, 1985) was discussed by the Executive Board on March 15, 1985.

The decision adopted was as follows:

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Consultations with Gabon are on the standard 12-month cycle.

IX. Technical Assistance

The Fund has provided Gabon with short-term technical assistance in debt management, general statistics, government finance statistics, and customs administration. An expert in expenditure control from the fiscal panel was stationed in Libreville during the year ended October 1980. A Fund technical assistance mission visited Libreville

IX. Technical Assistance (concluded)

in the period October 26-November 13, 1980 to review the tax system, and its report was issued on April 23, 1981. A separate report on oil taxation prepared by the head of that mission on a subsequent visit (July 19-25, 1981) to Libreville was issued on September 21, 1981. A member of the fiscal panel visited Libreville in the period May 23-June 6, 1981 to follow up on technical assistance in the field of customs administration. During the period August 1981-August 1983 another expert from the fiscal panel was assigned to Libreville as General Fiscal Advisor to the Minister of Economy and Finance. A Fund mission from the Bureau of Statistics visited Libreville during November 4-12, 1985 to provide technical assistance in the areas of domestic price and external trade statistics.

GABON - Basic Data

Area, population

Area	267,000 square kilometers
Population	
Total (1982 official estimate)	1.2 million
GDP per capita (1984)	SDR 2,745

	1981	1982	1983	1984	1985 Est.
	(In billions of CFA francs)				
GDP					
At current market prices	1,049.6	1,188.9	1,287.0	1,525.0	1,537.0
At 1980 constant prices	868.3	892.0	900.0	958.0	940.0
Real GDP adjusted for the terms of trade	935.5	924.6	864.3	925.9	868.1
	(In percent of GDP)				
Origin of CDP					
Oil sector	45.9	45.8	44.2	47.0	41.8
Non-oil sectors	54.1	54.2	55.8	53.0	58.2
Of which: Agriculture, livestock and fishing	(4.6)	(4.4)	(4.8)	(4.5)	(5.0)
Forestry	(1.8)	(1.7)	(1.6)	(1.6)	(1.4)
Manufacturing and energy	(5.1)	(5.3)	(6.0)	(5.5)	(6.1)
Construction and public works	(6.9)	(7.8)	(6.1)	(6.0)	(6.8)
Commerce	(6.5)	(5.1)	(6.5)	(6.4)	(7.0)
Public administration	(7.9)	(8.3)	(8.9)	(8.7)	(9.6)
Ratios to GDP					
Gross national savings	46.8	43.5	37.2	38.8	31.7
Gross aggregate investment	36.3	35.0	35.1	36.4	35.0
Central government revenue	38.9	39.8	37.5	38.5	40.9
Central government expenditure	29.5	31.5	35.6	38.1	42.3
Overall central government deficit					
Commitment basis	8.6	8.3	1.9	0.4	-1.4
Cash basis	7.9	6.2	-0.6	-2.9	-3.0
Money and quasi-money (end of period)	16.8	16.8	18.3	17.9	20.2
Exports of goods and nonfactor services	64.9	64.4	65.2	61.8	59.2
Imports of goods and nonfactor services	44.3	45.6	52.1	50.2	53.2
Current account of the balance of payments					
Excluding official transfers	9.7	7.9	2.0	1.6	-3.7
Including official transfers	10.4	8.5	2.1	2.4	-3.3

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Gabon - Relations with the World Bank Group

Between 1959 and 1975 the IBRD approved six loans to Gabon totaling US$69.3 million, most of which have been disbursed; no new commitments have been made since then. In view of its relatively high GNP per capita, Gabon has never been eligible for IDA credits. Under a 1983 technical assistance project in the planning field, financed mainly by the Gabonese authorities and partly by the UNDP, the IBRD, as an executing agency, provided experts to the Ministry of Planning in the areas of project evaluation and investment budget programming. The IFC and the Gabonese authorities have also been in contact on proposals for future IFC operations in Gabon. An IBRD mission visited Libreville during June 14-28, 1984 and the country economic memorandum, the first economic report on Gabon by the Bank since 1971, was issued in July 1985 (Report No. 5337-GA).

An economic mission is expected to visit Gabon in July 1986 to review the execution of the Five-Year Plan 1984-88 and examine with the authorities the reorientation of the public investment program.

Table. Gabon: Selected Economic and Financial Indicators, 1981-85

	1981	1982	1983	1984	1985 Est.
	(Annual percentage change)				
Gross domestic product					
At 1980 constant prices	-4.0	2.7	0.9	6.4	-1.9
At current prices	16.0	13.3	8.3	18.5	0.8
GDP deflator	20.9	10.3	7.3	11.3	2.7
Gross domestic expenditure	37.6	15.9	15.8	20.6	7.1
Consumption	(26.7)	(21.6)	(21.4)	(19.1)	(14.2)
Investment	(53.2)	(9.1)	(8.6)	(22.8)	(-3.1)
Consumer prices in Libreville (period averages)					
Low-income households	8.8	16.7	10.4	6.0	8.0
High-income households	10.1	12.7	14.4	9.6	8.5
Wholesale price index	10.1	14.8	8.4	7.7	7.5
External sector					
Exports, f.o.b. (in SDRs)	-4.0	4.9	-4.4	5.2	-3.9
Imports, f.o.b. (in SDRs)	12.1	-8.3	3.7	5.4	10.9
Export volume	-15.8	1.9	2.0	8.2	2.2
Import volume	18.4	-5.0	7.9	9.3	7.4
Terms of trade	20.2	6.5	-2.4	0.8	-8.9
Nominal effective exchange rate 1/	-4.4	-2.5	-1.7	-0.8	1.9
Real effective exchange rate 1/	-7.9	2.2	-0.7	-3.4	2.1
Government finance					
Total revenue	31.7	15.9	1.9	21.6	6.9
Total expenditure	27.3	21.1	22.2	26.7	12.0
Current	(20.5)	(8.2)	(12.0)	(13.7)	(8.7)
Capital	(41.7)	(40.4)	(27.2)	(35.5)	(16.1)
	(Annual change as percent of money and quasi-money at beginning of period)				
Money and credit					
Domestic credit	-2.9	-9.4	28.3	11.1	28.1
Credit to the Government (net)	(-21.6)	(-17.3)	(6.2)	(1.4)	(10.1)
Credit to the private sector	(18.7)	(7.9)	(22.1)	(9.7)	(18.0)
Money and quasi-money 2/	15.9	13.3	17.9	15.9	13.9
Velocity 3/	6.1	6.4	6.0	6.1	5.3
	(In percent of GDP)				
Overall budgetary surplus or deficit (-)					
Commitment basis	8.6	8.3	1.9	0.4	-1.4
Cash basis	7.9	6.2	-0.6	-2.9	-3.0
Current account balance					
Excluding official transfers	9.7	7.9	2.0	1.6	-3.7
Including official transfers	10.4	8.5	2.1	2.4	-3.3
Overall balance (deficit -)	3.1	4.1	-1.9	1.2	-1.2
Public external debt (end of period)					
External public debt	25.6	24.8	23.3	22.5	23.5
Debt service (as percent of exports of goods and services)	14.1	13.9	12.4	11.0	13.1
	(In millions of SDRs)				
Overall balance of payments	100	133	-59	39	-39
Gross official foreign reserves (end of period)	174.8	287.6	169.0	207.5	164.2
In months of imports, c.i.f.	2.5	3.8	2.5	2.7	2.2 4/

Sources: Data provided by the Gabonese authorities; and staff estimates.

1/ Trade-weighted.
2/ Including deposits of public enterprises.
3/ Based on five quarter averages of money and quasi-money.
4/ In terms of 1985 imports.

GABON - Basic Data

Area, population

Area	267,000 square kilometers
Population	
Total (1982 official estimate)	1.2 million
GDP per capita (1984)	SDR 2,745

	1981	1982	1983	1984	1985 Est.
	(In billions of CFA francs)				
GDP					
At current market prices	1,049.6	1,188.9	1,287.0	1,525.0	1,537.0
At 1980 constant prices	868.3	892.0	900.0	958.0	940.0
Real GDP adjusted for the terms of trade	935.5	924.6	864.3	925.9	868.1
	(In percent of GDP)				
Origin of GDP					
Oil sector	45.9	45.8	44.2	47.0	41.8
Non-oil sectors	54.1	54.2	55.8	53.0	58.2
Of which: Agriculture, livestock and fishing	(4.6)	(4.4)	(4.8)	(4.5)	(5.0)
Forestry	(1.8)	(1.7)	(1.6)	(1.6)	(1.4)
Manufacturing and energy	(5.1)	(5.3)	(6.0)	(5.5)	(6.1)
Construction and public works	(6.9)	(7.8)	(6.1)	(6.0)	(6.8)
Commerce	(6.5)	(5.1)	(6.5)	(6.4)	(7.0)
Public administration	(7.9)	(8.3)	(8.9)	(8.7)	(9.6)
Ratios to GDP					
Gross national savings	46.8	43.5	37.2	38.8	31.7
Gross aggregate investment	36.3	35.0	35.1	36.4	35.0
Central government revenue	38.9	39.8	37.5	38.5	40.9
Central government expenditure	29.5	31.5	35.6	38.1	42.3
Overall central government deficit					
Commitment basis	8.6	8.3	1.9	0.4	-1.4
Cash basis	7.9	6.2	-0.6	-2.9	-3.0
Money and quasi-money (end of period)	16.8	16.8	18.3	17.9	20.2
Exports of goods and nonfactor services	64.9	64.4	65.2	61.8	59.2
Imports of goods and nonfactor services	44.3	45.6	52.1	50.2	53.2
Current account of the balance of payments					
Excluding official transfers	9.7	7.9	2.0	1.6	-3.7
Including official transfers	10.4	8.5	2.1	2.4	-3.3

GABON - Basic Data (continued)

	1981	1982	1983	1984	1985 Est.
	(In billions of CFA francs)				
Central government finance					
Total revenue	408.5	473.6	482.8	587.3	628.0
Oil receipts	(271.5)	(310.2)	(311.4)	(384.6)	(397.8)
Non-oil receipts	(137.0)	(163.4)	(171.4)	(202.7)	(230.2)
Total expenditure	309.6	374.9	458.2	580.5	649.9
Current	(174.9)	(189.2)	(212.0)	(241.1)	(262.1)
Capital	(138.0)	(193.8)	(246.5)	(333.9)	(387.8)
Extrabudgetary expenditure 1/	(-3.3)	(-8.1)	(-0.3)	(5.5)	(--)
Net reduction of arrears	-16.4	-24.8	-31.9	-50.6	-24.2
Overall surplus or deficit (-)					
Commitment basis	98.9	98.7	24.6	6.8	-21.9
Cash basis	82.5	73.9	-7.3	-43.8	-46.1
Domestic financing (net)	-41.3	-54.3	41.1	12.0	22.6
External financing (net)	-41.2	-19.6	-33.8	31.8	23.5
Money and credit (end of period)					
Net foreign assets	32.3	84.1	72.5	92.3	55.4
Domestic credit	168.9	152.4	209.0	235.0	311.9
Credit to the Government (net)	-2.1	-32.5	-20.1	-16.8	10.9
Credit to the private sector	171.0	184.9	229.1	251.8	301.0
Money and quasi-money 2/	176.2	199.6	235.3	272.8	310.6
	(In millions of SDRs)				
Balance of payments					
Merchandise exports, f.o.b.	1,865.9	1,956.8	1,871.0	1,968.6	1,890.8
Merchandise imports, f.o.b.	-713.4	-654.5	-678.7	-715.3	-793.6
Services (net)	-755.2	-968.4	-1,041.2	-1,107.3	-1,128.3
Of which: scheduled interest on the public debt	(-107.7)	(-112.7)	(-80.3)	(-80.6)	(-91.9)
Private transfers (net)	-79.0	-75.7	-89.0	-90.2	-94.3
Public transfers (net)	23.8	21.9	5.3	24.7	15.4
Current account balance					
Excluding public transfers	318.3	258.2	62.1	55.8	-125.4
Including public transfers	342.1	280.1	67.4	80.5	-110.0
Capital account					
Long term capital	-61.4	149.0	78.9	170.7	190.9
Public (net)	(-117.4)	(-52.6)	(-79.8)	(70.1)	(50.6)
Private (net)	(56.0)	(201.6)	(158.7)	(100.6)	(140.3)
Other capital	-154.7	-185.1	-152.8	-183.8	-98.6
SDR allocations, errors and omissions, and valuation adjustment	-25.7	-111.0	-52.9	-28.2	-21.7
Overall balance	100.3	133.5	59.4	39.2	-39.4
Gross official reserves					
Total (in millions of SDRs)	174.8	287.6	169.0	207.5	164.2
In months of imports, c.i.f.	2.5	3.8	2.5	2.7	2.2 3/

GABON - Basic Data (concluded)

	1981	1982	1983	1984	1985 Est.
	(In billions of CFA francs)				
External debt					
Outstanding public debt (end of year)	268.8	294.9	300.4	342.7	361.4
Public debt	(244.4)	(247.5)	(248.7)	(293.7)	(312.8)
Government guaranteed	(24.4)	(47.4)	(51.7)	(49.0)	(48.6)
Debt service	121.6	138.4	159.5	156.5	181.2
Public and guaranteed	97.0	107.3	105.2	104.4	121.2
Interest	(34.5)	(40.9)	(32.7)	(36.1)	(41.9)
Amortization	(62.5)	(66.4)	(72.5)	(68.3)	(79.3)
Private external debt	24.6	31.1	54.3	52.1	60.0
Interest	(5.2)	(9.2)	(21.3)	(21.2)	(23.0)
Amortization	(19.4)	(21.9)	(33.0)	(30.9)	(37.0)
Debt service as a ratio to exports of goods and services (in percent)	14.1	13.9	12.4	11.0	13.1
Exchange rates (period average)					
CFAF/US$	271.73	328.61	381.06	436.96	449.26
CFAF/SDR	320.41	362.79	407.35	447.89	456.15

1/ Net operations of the Treasury special accounts.
2/ Including deposits of the public enterprises.
3/ In terms of 1985 imports.

Gabon--Statistical Issues

1. Outstanding Statistical Issues

a. Monetary accounts and international reserves

Data for international liquidity and money and banking have been sent by the head office of the BEAC on only a quarterly basis. A year ago, the Bureau requested that international liquidity data be sent by cable and that all monthly data be sent as they become available. The mission also emphasized the importance of up-to-date monetary data to assist in following economic and financial developments in Gabon.

b. Government finance

No data are reported for publication in IFS. Data published in the 1984 Government Finance Statistics Yearbook cover the period 1973-1976 and were compiled in the course of a technical assistance mission undertaken during 1977. No replies are received to the Bureau's statistical questionnaire that is sent to the GFS correspondent every year and it has not been possible to arrange a further GFS mission. The mission impressed upon the authorities the importance the Bureau attaches to receiving government finance data.

c. Balance of payments

A reply has not yet been received to the Bureau's queries regarding the availability of statistics on foreign assets and liabilities.

2. Coverage, Currentness, and Reporting of Data in IFS

The table below shows the currentness and coverage of data published in the country page for Gabon in the March 1986 issue of IFS. The data are based on reports sent to the Fund's Bureau of Statistics by the Directeur National de la Banque des Etats de l'Afrique Centrale, which during the past year have been provided on an irregular basis. Delays in reporting appear to be attributable in part to the centralization of reporting through the BEAC.

Status of IFS Data

		Latest Data in March 1986 IFS
Real Sector	- Prices: CPI	September 1985
	WPI	Q2 1985
	- Production	n.a.
	- Employment	n.a.
	- Earnings	n.a.
Government Finance	- Deficit/Surplus	n.a.
	- Financing	n.a.
	- Debt	n.a.
Monetary Accounts	- Monetary Authorities	Q4 1984 1/
	- Deposit Money Banks	Q4 1984 1/
	- Other Financial Institutions	October 1985
External Sector	- Merchandise Trade: Values	1984
	Prices	n.a.
	- Balance of Payments	1983
	- International Reserves	Q4 1984
	- Exchange Rates	January 1986

3. Technical Assistance

A technical assistance mission visited Gabon during November 3-12, 1985 to review the methodology underlying the compilation of statistics on prices, production and external trade. The report of the mission will be transmitted to the authorities as soon as it is completed.

A second technical assistance mission in the area of money and banking statistics visited the BEAC headquarters in Yaoundé during December 2-13, 1985.

1/ Data are available through February 1985 in the Data Fund.