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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 18/109-3

12:10 p.m., December 19, 2018

**3. Gabon—Third Review Under the Extended Arrangement Under the Extended Fund Facility, and Requests for Waiver of Nonobservance of Performance Criterion, and Modification of Performance Criterion**

Documents: EBS/18/118 and Correction 1; and Supplement 1

Staff: Loko, AFR; Sun, SPR

Length: 37 minutes

## **Executive Board Attendance**

M. Furusawa, Acting Chair

### **Executive Directors    Alternate Executive Directors**

I. Mannathoko (AE)

M. Raghani (AF)

G. Lopetegui (AG)

G. Johnston (AP)

P. Fachada (BR)

P. Sun (CC)

M. Mulas (CE), Temporary

M. Sylvester (CO), Temporary

C. Just (EC)

A. Castets (FF)

S. Meyer (GR)

M. Siriwardana (IN)

T. Persico (IT), Temporary

Y. Saito (JA)

M. Daïri (MD)

F. Al-Kohlany (MI), Temporary

R. Doornbosch (NE)

G. Gunnarsdottir (NO), Temporary

Z. Smirnova (RU), Temporary

F. Rawah (SA), Temporary

P. Pham (ST), Temporary

P. Trabinski (SZ)

A. Clark (UK), Temporary

P. Pollard (US), Temporary

G. Tsibouris, Acting Secretary

H. Malothra, Summing Up Officer

E. Mannefred, Board Operations Officer

L. Nagy-Baker, Verbatim Reporting Officer

### **Also Present**

African Department: B. Loko, D. Robinson, Z. Zeidane. Finance Department: M. Albino Orjuela. Strategy, Policy, and Review Department: D. Daly, T. Orav, Y. Sun. World Bank Group: D. Elmaleh. Executive Director: H. de Villeroché (FF). Alternate Executive Director: H. Razafindramanana (AF), F. Sylla (AF). Senior Advisors to Executive Directors: P. Braeuer (GR), Y. Danenov (SZ), G. Gasasira-Manzi (AE), Z. Mohammed (BR),

T. Nguema-Affane (AF), F. Bellocq (FF). Advisors to Executive Directors: P. Braeuer (GR), S. David (AP), O. Diakite (AF), S. Harutyunyan (NE), C. Moreno (AG), H. Mori (JA), E. Ondo Bile (AF), K. Osei-Yeboah (MD), K. Lok (CC).

**3. GABON—THIRD REVIEW UNDER THE EXTENDED ARRANGEMENT UNDER THE EXTENDED FUND FACILITY, AND REQUESTS FOR WAIVER OF NONOBSERVANCE OF PERFORMANCE CRITERION, AND MODIFICATION OF PERFORMANCE CRITERION**

Mr. Raghani and Mr. Nguema-Affane submitted the following statement:

On behalf on the Gabonese authorities, we would like to thank the IMF Executive Board, management and staff for their continued support to Gabon's economic recovery program (PRE) in the context of the Extended Fund Facility (EFF).

Over the past few months, the Gabonese authorities followed through on their commitment to implement the fiscal adjustment package announced in the revised 2018 budget to keep their program on track. As a result, program implementation has improved since the conclusion of the second review in August 2018. Five out of seven indicative targets at end-September 2018 were met and progress has been made in the reform agenda, notably in the fiscal sector, albeit at a slower pace than expected in some instances. These achievements demonstrate the authorities' continued commitment to their program and the regional efforts to strengthen external stability in the CEMAC. Going forward, they will pursue the implementation of reforms aimed at strengthening macroeconomic stability and make further progress to improve the business environment and foster economic diversification to reduce dependence on oil. The authorities submitted a draft budget law for 2019 that is consistent with the Fund-supported program's objectives. Against this backdrop, the Gabonese authorities request the completion of the third review under the EFF arrangement.

**Recent Economic Developments and Program Performance**

The Gabonese economy is recovering albeit at a pace slower-than expected. Economic activity picked up in 2018, driven mainly by buoyant agricultural and mining sectors. However, overall growth in 2018 will be lower than previously projected at around 1.2 percent, owing to under-execution of the public investment program and shortfalls in oil production. Inflation increased slightly above the regional convergence criterion of 3 percent at end-September 2018 and will increase to 4 percent by end-year due to higher food prices following the elimination of related subsidies and higher fuel prices reflecting the pass-through of rising international oil prices. The trade balance has improved aided by higher oil prices despite shortfalls in oil and manganese export volumes.

Fiscal performance at end-September 2018 exceeded expectations. Sustained domestic revenue mobilization resulted in improved non-oil revenue performance. However, expenditures were also above projections due to the costs of the legislative and local elections held in October 2018 and delays in the rationalization of public agencies. Nevertheless, the non-oil fiscal deficit at end-September 2018 settled 0.4 percentage points of non-oil GDP lower than programmed. Furthermore, the non-oil fiscal deficit could outperform the program's target by 0.7 percentage points, should the current fiscal stance be maintained throughout the last quarter of 2018. This will represent a total adjustment of 4.6 percentage points of non-oil GDP since the beginning of the program, which is a significant contribution to efforts in preserving external stability in the CEMAC region.

Public debt will decline to below 60 percent of GDP in 2018 as it continues to be serviced and arrears are being repaid. At times liquidity constraints led to the occurrence of some short-term arrears, both external and domestic. Nevertheless, the strategy for the settlement of public debt arrears as presented in the second review is being implemented. In particular, all external debt arrears to official creditors have been repaid and external arrears on non-guaranteed commercial loans should be fully settled by end-December 2018. The repayment of the domestic debt arrears to the "Club de Libreville" creditors has started, consistent with the agreed repayment schedule. A contract with the firm selected to audit domestic arrears has been signed and the report of the audit should be available by end-April 2019.

Fiscal reforms to improve domestic revenue mobilization and rationalize expenditure progressed in the second half of 2018. In particular, efforts to broaden the tax base continued, with among others, the identification and regularization of the new VAT taxpayers, and the elimination of exemptions to companies holding public procurements and other government contracts. Moreover, efforts to collect outstanding taxes picked up, but liquidity constraints of targeted companies limited progress in this area. At the same time, several key measures introduced in the revised 2018 budget law to reduce expenditures, notably the wage bill – such as the downsizing of the Presidency and the consolidation of public agencies – are being implemented. As regard fiscal transparency, a unit tasked with financial oversight of public entities has been created and will be fully operational in 2019.

Progress is also being made in improving cash management with a view to preventing resurgence of debt arrears. The authorities welcomed the Fund TA in November 2018 whose recommendations are already being

implemented, notably the development of a cash flow plan for 2019. The consolidation of the treasury single account (TSA) has started with the closure of all accounts of public entities at the state depository corporation (Caisse des dépôts et des consignations, CDC) and the transfer of their balances to the TSA. The consolidation of the TSA will be completed by end-March 2019 with the closure of all public accounts opened with commercial banks.

Monetary conditions continue to improve as money supply grew by 23 percent, supported essentially by rising private sector deposits. The financial system remains stable and profitable despite the deterioration of asset quality. The resolution of public banks is advancing, with all three banks now under liquidation following the recent decision by the regional supervisory body COBAC to withdraw the operating license of the development bank.

As noted above, the implementation of the program has improved since the last review. Five out of seven indicative targets for end-September 2018 were met. The two indicative targets on the stock of domestic arrears and priority social spending were missed due mainly to strong liquidity pressures and low execution of investment budget in priority sectors. The continuous performance criterion (PC) on external arrears was also missed following the emergence of small amount of external arrears, which has been cleared in early December 2018. The Gabonese authorities are requesting a waiver for the nonobservance of that PC. Most of the structural benchmarks have been observed albeit a few of them with delays. As indicated in the staff report, the authorities set up a technical committee tasked with closely monitoring the Fund-supported program to improve program implementation and coordination across the government.

### Policies for 2019 and Beyond

The recovery is expected to accelerate, and growth will reach 3.1 percent in 2019, as the oil production outlook is improving and activity in forestry, mining and agriculture sectors is projected to remain strong. The economy will also benefit from the launch of several PPP projects. Inflation is expected to decline from 4 percent in 2018 to 3 percent in 2019. The medium-term prospects remain broadly promising, supported by continuous flows of FDI in the non-oil sector and effective implementation of the authorities' ambitious reform program to address the challenges facing the Gabonese economy. As indicated in their Memorandum of Economic and Financial Policies (MEFP), the authorities plan to maintain the policy stance and reforms agreed under the EFF arrangement to strengthen macroeconomic

stability, promote strong, inclusive and private sector-led growth, while contributing to the regional external stability.

The authorities remain committed to pursuing fiscal consolidation and addressing weaknesses in the public financial management to deliver quality adjustment and avoid further debt accumulation. They submitted a draft 2019 budget law to the Parliament which targets a lower fiscal deficit of 4.5 percent of nonoil GDP, as measures initiated in 2018 become fully effective and new measures are introduced. The mobilization of domestic resource and rationalization of expenditures remain top priorities in the fiscal program. To this end, initiatives to streamline and control tax and customs exemptions will continue with a view to ensuring that only exemptions with legal basis remain. On the expenditure side, measures to further reduce nonessential expenditure and the wage bill will be implemented. These include the continued consolidation of public agencies and the formalization of organizational frameworks for the administrative services. These efforts will be supported by the World Bank's technical assistance. As in the revised 2018 budget law, the draft 2019 budget includes an automatic mechanism to adjust expenditures in case of revenue shortfalls.

The fiscal reform agenda for 2019 places a special emphasis on improving fiscal transparency and governance, notably in oil and mining revenue and public financial management. In particular, the authorities will step up their efforts to submit the country's application to the EITI in 2019. Moreover, the law creating the Gabonese Strategic Investment Fund (FGIS) will be amended to allow participation of the government official representatives on the FGIS Board of Governors. Moreover, the transposition of CEMAC directives on public financial management into the Gabonese legislation will continue.

The authorities are committed to improving the execution and reporting of social spending during fiscal consolidation. They recognize that the low execution rate of social spending compared to program target needs to be addressed and, in this vein, they are accelerating social spending by end-2018. That said, as the staff report notes, the authorities believe that the definition of social spending do not reflect accurately the efforts made toward social protection. Therefore, they will review the coverage of that program indicator by including various benefits already made to the most vulnerable groups of the population and improve targeting of poor based on the findings of the 2017 Household Survey, with the assistance of the World Bank. The monitoring of social expenditure execution will benefit from the ongoing modernization of public expenditure management.

The strengthening of the financial system will continue. First, the authorities recognize that an effective clearance of domestic arrears will improve corporations' cash flow positions, which in turn will help bring NPLs down. Likewise, the authorities plan to convert part of its domestic debt into marketable securities. A strategy for resolving NPLs will be prepared by end-March 2019. The liquidation of the public banks will be expedited with the assistance of a recently-created liquidation support group whose members, to be appointed by end-January 2019, will represent all stakeholders and must not present any conflict of interest.

The authorities maintain their intention to implement structural and institutional reforms aimed at further advancing economic diversification and promoting sustainable and inclusive private-sector-led growth. Besides structural reforms in the fiscal and financial sector, their reform program focuses on making the financial sector a major player in bolstering private sector development, notably for the small- and medium-sized enterprises (SMEs), and strengthening the judicial system, with the launch of the Arbitration Division, the training of specialized judges and the creation of commercial courts.

### Conclusion

The Gabonese program performance has improved since August 2018 with the implementation of the bold adjustment measures introduced in the revised 2018 budget. The authorities remain committed to the program's objectives and recognize that adjustment efforts need to be sustained to preserve fiscal sustainability and external stability. In particular, they are determined to pursue policies and reforms aimed at strengthening macroeconomic stability and reducing dependence on oil by unlocking growth potential in the nonoil sectors, with the assistance of the Fund and other development partners. In light of the satisfactory program performance, including through recent corrective measures, and the authorities' resolve to pursue their macroeconomic and structural transformation objectives, Directors' favorable consideration of the authorities' request for the completion of the third review under the EFF will be appreciated.

Mr. Fachada, Ms. Benoit and Ms. Florestal submitted the following statement:

We thank staff for the comprehensive reports, including the recent supplementary information. We also thank Messrs. Raghani and Nguema Affane for their informative statement. Gabon's economy is slowly recovering from the dual shock of lower oil prices and depleting oil production.



Performance under the Extended Fund Facility (EFF) was relatively weak at the time of the second review, but some improvement has been registered since then, with most indicative targets for end-September met. The completion of all three prior actions for this review is welcome. Therefore, we support the completion of the third review, as well as the request for waiver of nonobservance of performance criterion on external arrears. We emphasize that the Gabonese authorities are making efforts to improve program implementation and contribute to the regional effort to restore fiscal and external sustainability.

Nonetheless, we remain particularly concerned by the repeated accumulation of external arrears. Beyond liquidity constraints, this seems to suggest serious problems in debt management and policy coordination within the administration. Hence, we support the initiatives to strengthen the Treasury Single Account (TSA) and encourage better coordination between the Debt Department and the Treasury.

The authorities need to advance revenue mobilization and fiscal consolidation to ensure public debt sustainability. We commend the authorities for the 2018 supplementary budget, and their efforts to increase non-oil revenue. With the October 2018 legislative elections and limited capacity, a number of measures envisaged both on the expenditure and on the revenue side did not yield expected results, including those regarding the wage bill, taxation of public entities, elimination of exemptions, and elimination of the programme de lutte contre la vie chère. We note that the 2019 budget is broadly in line with the program objectives. Nonetheless, we agree with staff that implementation risks remain high.

Albeit Gabon is an upper-middle income country, a large share of the population still lives under the poverty line and remains vulnerable. Therefore, the Gabonese authorities are encouraged to continue pursuing reforms to achieve inclusive growth and safeguard social spending. We underscore that the authorities consider that “social spending as defined under the program does not accurately capture their efforts to protect vulnerable groups”, and that they are working with the World Bank to better identify and target these groups. Could staff comment on how the work being done based on the completed household survey could change program targets?

The financial sector seems generally sound, but NPLs remain high. We note recent efforts to increase provisioning for nonperforming loans and the expectation that clearance of domestic arrears will help reverse the upward NPLs trend. We are puzzled by the abnormally high level of profitability of

Gabon banks, as reported in Table 6 (return on equity and return on assets averaging close to 40 percent and 4 percent in the last three years, respectively). We look forward to the acceleration of the resolution of the public banks under liquidation to minimize their fiscal risks, and to the finalization of the strategy for resolving NPLs.

We commend the authorities for recent initiatives to strengthen macroeconomic statistics. Availability of reliable data—particularly on poverty and income distribution—is critical for the adoption of efficient social policies.

Mr. Doornbosch and Ms. Harutyunyan submitted the following statement:

We thank staff for the comprehensive report and Mr. Raghani and Mr. Nguema-Affane for their informative buff statement. Despite challenging macroeconomic conditions, the legislative elections in October, and weak performance on program conditionality through end-June 2018, Gabon’s program implementation has improved since the last review. The package of corrective measures has been fully implemented, most indicative targets and structural benchmarks have been met, and some prior actions are on the way going forward. Most importantly, the authorities remain committed to the Fund-supported program. As such, we support the completion of the third review under the Extended Fund Facility, the request for a waiver of nonobservance of a performance criterion (PC), and the proposed modification of PCs. We would like to offer the following points for emphasis.

We welcome Gabon’s improving macroeconomic conditions and persisting positive outlook, while noting persisting downside risks. Against the background of rising oil prices and subsiding political risks, Gabon’s economy is slowly recovering after the slowdown in 2016, anchored by continued fiscal consolidation, narrowing current account balance and moderate inflation. The medium-term outlook for the non-oil economic growth, fiscal and external positions is also encouraging. Notwithstanding this, we note that Gabon faces the same challenges as its commodity-dependent CEMAC peers, and the risks are mostly on the downside going forward. We encourage the authorities to accelerate the structural reforms to improve the business environment, support sustainable and inclusive growth as well as foster economic diversification to reduce the dependence on the oil sector.

Notwithstanding Gabon's progress under the program, we encourage the authorities to prevent the accumulation of new arrears and adhere to the social targets. We note that despite the regional challenges and electoral period, the authorities have successfully kept the program on track, meeting five out of seven indicative targets for end-September 2018. In this context, the reduction of the primary non-oil fiscal deficit and higher than targeted non-oil revenue collection is commendable. We are encouraged that most structural benchmarks and corrective measures enshrined in the 2018 supplementary budget have been implemented, albeit with some delays. We welcome the fact that despite the accumulation of new external arrears since the second review, all official and officially-guaranteed arrears have been cleared, and the outstanding commercial non-guaranteed arrears are planned to be settled by end 2018. Meanwhile, missing the indicative target on social protection spending is regrettable. Going forward, we urge the authorities to take decisive measures to improve the execution of social spending and prevent the recurrence of new arrears' accumulation. We support the establishment of a dedicated committee designed to monitor the program and improve its implementation. Could staff elaborate more on the functions and autonomy of this committee?

Gabon's authorities should put fiscal consolidation and public finance management (PFM) high on their agenda. Notwithstanding the progress achieved so far, we urge the authorities to adhere to fiscal consolidation as planned and address weaknesses in the PFM. We stress the importance of structural reforms aimed at enhancing revenue mobilization and containing non-priority public spending. We agree with staff that revenue collection risks are skewed to the downside and welcome the introduction of automatic public spending adjustment mechanism in the budget law. We also support the ongoing measures to prevent the accumulation of new external arrears. In this regard, the closure of all accounts of public entities and repatriation of the deposits in the treasury single account (TSA) is an important prior action. The submission of a draft on the 2019 budget law consistent with the program, and the development of a cash flow plan are well taken. Going forward, we encourage the authorities to adhere to the structural benchmarks envisaged in the report to further enhance the PFM and debt management frameworks, tax administration and the transparency of autonomous agencies and SOEs.

The close monitoring of financial risks and addressing the existing vulnerabilities is critical for financial stability. We note that Gabon's financial system remains sound and profitable, while the deterioration of asset quality poses significant risks to financial stability. In this context, we support the authorities' intention to convert a large share of domestic debt into marketable

securities aimed at improving the balance sheets of many SMEs and bringing down the NPLs. We also encourage the authorities to step up their efforts to liquidate the three distressed public banks at minimum fiscal costs, consistent with structural benchmarks envisaged in the report. This is critical for preserving financial sector stability and enhancing growth going forward.

With these remarks, we wish the Gabonese authorities all the success in their future endeavors.

Mr. Agung, Mr. Johnston, Mr. David, and Mr. Pham submitted the following joint statement:

We thank staff for the comprehensive report and Mr. Raghani and Mr. Nguema-Affane for their informative buff statement. We commend the Gabonese authorities' efforts to get the Extended Arrangement Under the Extended Fund Facility program back on track despite the on-going macroeconomic challenges. While performance on program conditionality was weak up to end-June, most end-September indicative targets were met and most program-supported structural reforms have been implemented, albeit with some delays. With this, we support the proposed completion of the third review under the EFF and the associated requests. The continuing efforts of the Gabonese authorities toward strong program implementation would contribute to the regional initiatives on fiscal and external sustainability within the CEMAC membership.

The 2018 Supplementary Budget as well as the efforts of the dedicated program monitoring committee have supported the fiscal adjustment. However, more needs to be done to boost non-oil revenue and contain non-priority spending, given the less than favorable near-term outlook. We are concerned that the targets on new external payment arrears and repayment of domestic arrears were missed during the review period. We therefore welcome the decision to use the treasury single account for better expenditure control, as well as efforts enhancing debt and cash liquidity management to minimize accumulation of domestic and external arrears. It is also important to achieve the indicative target on social spending. To this end, we are pleased with the increase in funding in the 2018 Supplementary Budget for education and social protection, as well as the establishment of the social expenditure committee with assistance from the World Bank. To minimize contingent liabilities for the government, we also support the authorities' efforts in improving consolidated financial oversight of public agencies.

Reforms to the financial sector should be stepped up. We note that the three distressed public banks are now under liquidation and support staff's recommendation for an orderly and expedient process given the potential budgetary impact. In this regard, we are encouraged by the authorities' plans for a liquidation support group with all stakeholders. On the other hand, NPL ratios continue to remain high. This calls for a stronger legal and supervisory framework, including judicial process and collateral registries. In this regard, we welcome the authorities' renewed commitments toward the clearance of domestic arrears and the work on a strategy to resolve this trend. Would staff advise on their role, if any, in the strategy which is a proposed reset structural benchmark, since the target was missed in the previous two reviews?

The regional institutions of CEMAC have an important role in the success of programs, both in Gabon and other member countries. We welcome the corrective actions taken by the regional central bank, BEAC, and financial sector supervisor, COBAC, to compensate for lower-than-expected reserve accumulation by member countries. We also note the ongoing efforts by Gabon to implement public management reforms in line with CEMAC directives. We welcome the proposed semi-annual tripartite consultations between IMF staff, regional institutions and member states to review regional strategy implementation. We are, however, conscious of the risk that adjustment at the regional level proves insufficient due to further delays in approving financial arrangements for Congo and Equatorial Guinea which could bring into question the eventual success of the regional strategy. We also see a risk that higher oil prices do not continue as expected. Could staff comment on why no risk assessment matrix was put together for this review of Gabon's program?

Ms. Pollard and Ms. Svenstrup submitted the following statement:

In light of the U.S. position on those countries that are not making significant efforts to address the problem of trafficking in persons, we will not support Gabon's Extended Fund Facility (EFF) until the government of Gabon complies with the minimum standards or makes significant efforts to bring themselves into compliance with the Trafficking Victims Protection Act of 2000. The U.S. Chair would like to be recorded as voting "no" on the completion of the second review of the EFF.

We recognize the positive measures taken by the Gabonese authorities to implement the corrective measures identified in their supplemental budget and to contribute to the CEMAC regional stability. However, more needs to be done to improve debt management, address shortfalls in social spending,

and enhance domestic resource mobilization. We welcome the authorities' plans to improve transparency of the oil sector, in line with the excellent Selected Issues Paper in the CEMAC regional staff report.

The repeated accumulation of new external arrears is particularly troubling and underscores the underlying structural problems with Gabon's current debt management system. Decisive action to improve debt and cash management, including the establishment of a treasury single account, is needed to break the recurrent cycle of arrears accumulation. Could staff comment on the latest progress on the independent audit of domestic arrears due to be completed April 2019?

The authorities have made significant efforts to consolidate the fiscal deficit, and we agree that the fiscal strategy going forward should focus on boosting non-oil revenue while preserving growth. From Text Table 3, we note that most of the tax revenue measures are significantly underperforming staff projections at the time of the second review. Could staff provide more clarity on the discrepancy between the previous targets and projected actual numbers? Do staff feel confident that Gabon's revenue authority will be able to implement these reforms?

As in other CEMAC program documents, staff note that the authorities are ready to "identify and adopt any additional corrective measures at the national and/or regional policy levels" to sustain the regional strategy. What contingency measures do staff foresee the Gabonese authorities needing to take should downside risks at the regional level materialize? Full implementation by the BEAC and COBAC of the policy assurances outlined in the Letter of Support would provide the underlying external conditions in support of reform implementation in Gabon.

Ms. Mannathoko and Ms. Gasasira-Manzi submitted the following statement:

We thank staff for their report and Messrs. Raghani and Nguema-Affane for their informative buff statement.

We note the gradual recovery in Gabon's economic growth, post 2017, and the reduction in political risks alongside the significant improvements seen in program implementation since the second review. Consequently, we support the completion of the third review of Gabon's Extended Fund Facility (EFF) and the decision on page 21. In particular, we note from Messrs. Raghani and Nguema-Affane's buff that as at December, the authorities have met all prior actions and, under the continuous performance criterion have

now cleared the external arrears that appeared earlier. In addition, progress has been made toward end-December regional policy assurances and corrective actions taken to address net foreign asset underperformance. We also note the improvements made in cash and debt management to avoid accumulation of new arrears, and the establishment of a program implementation monitoring function to help avert future lapses. Going forward, we encourage the authorities to remain committed in promoting social stability and in implementing the reforms needed to ensure macroeconomic stability and equitable growth.

### Fiscal Performance

We commend the improvement in fiscal performance, with higher than targeted non-oil revenue alongside the full implementation of corrective measures for revenue, contained in the 2018 supplementary budget. Given the social spending and private sector development needed to alleviate social pressures, fiscal consolidation measures should be implemented carefully; in a manner that preserves growth-enhancing capital investment and social spending. We note however, that the target on social spending continues to be missed; and we also note the authorities' concern that the definition of social spending under the program is not comprehensive enough to capture their efforts to protect vulnerable groups. Nevertheless, given the stabilizing benefits of effective pro-poor and social spending, especially in Gabon's high youth unemployment context, we encourage the authorities to commit to the agreed targets. If properly implemented, such spending could help to bring more social cohesion and stability. Staff views are also welcome on how the tendering process that the authorities cite as the reason for social spending delays could be strengthened; and on the differences in social spending definitions cited by authorities.

We note that 2018 financing needs were higher than expected due to lower oil revenue, while budget support disbursements from multilaterals were lower than expected due to unmet targets, necessitating remedial measures. We therefore urge the authorities to strengthen their program delivery to all multilateral financiers in order to avert future financing shortfalls. The authorities are also urged to build capacity and best practice in fiscal and public enterprise management; and closely monitor and manage the financial position of public agencies and enterprises with weak financial positions so as to avoid contingent liabilities (notwithstanding the presence of contingent reserves) and advance Public Financial Management reforms.

### Financial Sector Performance

We note the rising non-performing loan (NPL) ratio in the banking sector and encourage the authorities to prioritize their domestic arrears clearance, noting the importance of a credible plan to settle these outstanding obligations, since they continue to impact negatively on banks' balance sheets and push banks towards risky lending. We hope the authorities' strategy to resolve NPLs targeted for completion in March 2019 can be implemented immediately to help contain the deterioration in the NPL ratio. While we see merit in resetting the structural benchmark for a strategy for the clearance of loans in arrears in the banking sector, to allow for collaboration between national and regional authorities, we seek assurance that this will not delay prompt action by the Gabonese authorities on domestic arrears clearance.

### Structural Reforms and Private Sector Development

We note the progress made on structural reforms as at end December and emphasize the importance of such measures in supporting the program's success. In the context of promoting private sector-led growth, we are encouraged by the stated commitment to reforms needed for private sector development under the Economic Recovery Program and the Emerging Gabon Strategic Plan. We encourage continued movement on structural measures needed to improve the business environment and boost competitiveness. This is important especially if there has been real effective exchange rate appreciation and a loss in price competitiveness for producers. Could staff indicate whether the real exchange rate is still overvalued by over 10 percent, and if so what measures have been used and proved effective in compensating for the loss in competitiveness by non-oil producers?

### Governance and Oil

Gabon is a mineral-dependent upper-middle income country. With oil production currently at 30 percent of GDP and projected to rise with new investments coming on-stream, we would like to highlight how essential it is that the authorities prioritize measures geared at building robust mineral resource management systems and capabilities, that will safeguard and put to efficient use remaining oil resources. This requires developing strong governance, transparency and anti-corruption institutions and practices; while ensuring the effective implementation of planned measures in oil-related public financial management.

In closing, we welcome the implementation of the program to improve economic statistics and the quality of national accounts. This will strengthen



economic monitoring, planning and policy making. With these comments we wish the authorities success.

Mr. Saito, Mr. Ozaki and Ms. Mori submitted the following statement:

We thank staff for the informative papers and Mr. Raghani and Mr. Nguema-Affane for their insightful buff statement. We regret that program performance through end-June 2018 was weak. Meanwhile, we positively note that the authorities took corrective actions since the completion of second review and program implementation has improved. It is also encouraging that the economy is slowly recovering, inflation has remained low and the trade balance has improved. Acknowledging the corrective actions taken by the authorities and all three completed prior actions (PA), we hesitantly support the completion of the third review, modification of the external debt performance criterion, and waiver of the continuous performance criterion on non-accumulation of external arrears, urging the authorities to meet the conditionality as ruled in the program in timely manner. Having said so, much remains to be done in their reform efforts as risks remain mostly tilted to the downside and continuous breach of debt related criterion and delayed implementation of some measures are observed. In this light, staff point out that the most immediate risk to the outlook is failure to implement the planned fiscal consolidation and critical reforms to preserve macroeconomic stability and support growth. What do staff think will be a main obstacle of steadfast program implementation? If the issue is weak administrative capacity and coordination, how do the authorities overcome?

### Fiscal Policy

Fiscal reforms should be further strengthened. While welcoming the higher than targeted non-oil revenue collection as of end-September reflecting strengthened revenue administration and impact of new measures envisaged in the 2018 supplementary budget, we are concerned about delayed implementation of some key measures including elimination of unjustified tax exemptions, reduction of the wage bill, and reduction of government agencies. We urge the authorities' steadfast implementation of measures committed under the program. On the management of oil revenue, we support the authorities' commitment to improve the oversight of state-owned enterprises involved in the oil sector to assure effective and transparent collection of oil revenues. In this context, could staff elaborate on how the structural benchmark (SB) of application for EITI membership contributes to the improvement of transparency?

## Managing Arrears

Continuous performance criterion of the zero ceiling on external arrears has been missed for three consecutive reviews. Same as past two reviews, the authorities cleared newly accumulated external arrears with respect to official bilateral creditors just before the board meeting. It is disappointing that the structural benchmark related to the Treasury Single Account (TSA), which is a key to prevent accumulation of new external arrears, was not implemented on schedule. In this relation, we take note that there remain central government accounts opened with commercial banks and closure of them is set for SB for end-Mar 2019. We would like to know why the closure of these accounts were not set for PA and how to ensure closure of these account without delay. At the same time, timely information sharing between the Treasury and the Debt Department is crucial and we encourage the authorities to implement monthly transfer of data related to debt service.

On the commercial arrears, we recall the situation of first review that the authorities committed to clear all external arrears by the end of 2017 but failed to meet the commitment. At the second review, staff explained that it was because of spending pressures and liquidity constraints which staff were not aware at the time of the first-review. In this context, we would like to know what corrective measures are taken to avoid the recurrence of end year fiscal slippage. We also would like to hear staff's evaluation on these measures. Could staff guarantee the effectiveness of these measures?

On domestic arrears clearance plan, we agree with staff that slower clearance of arrears or accumulation of new domestic arrears could jeopardize fiscal consolidation objectives, undermine confidence, weaken the banking system and constrain credit growth. In this regard, we would like to ask staff whether the clearance of domestic arrears to the club de Libreville and others is implemented as planned. If not the case, what kind of corrective measures are taken?

## Financial Sector

We encourage the authorities to facilitate an orderly liquidation process and address high non-performing loans (NPL). We note that the NPL ratio is still rising. In this light, what is the cause of the increase? Are there any specific sectors that is more vulnerable than other sectors?

## Social Spending

Social spending should be preserved to mitigate the potential impact of fiscal consolidation on the vulnerable. We note that floors on social protection spending was missed due to low execution of investment in education sector and related delays in the public tendering process. Related to this point, we note that the authorities will more comprehensively define the scope of social spending and improve the targeting of the poor and vulnerable population in collaboration with the World Bank. While we understand the importance of well targeted social protection, it is also important that the poor and vulnerable population reap the benefit from the allocated budget. In this regards we encourage the authorities to efficiently and effectively execute the social spending resources.

Mr. Gokarn and Mr. Siriwardana submitted the following statement:

We thank staff for the detailed report and the update with supplementary information, and Mr. Raghani and Mr. Nguema-Affane for their informative buff statement. Gabon's economy is gradually recovering. Growth is increasing, the twin deficits have narrowed, and public debt has declined, although inflation has increased due to high food prices and the pass through of increasing international oil prices. We commend the authorities for implementing critical measures in the 2018 Supplementary Budget to restore fiscal discipline, and preserve fiscal and debt sustainability. However, much remains to be done to meet Gabon's broad development objectives, improve living standards and reduce poverty.

The performance under the Extended Fund Facility (EFF) arrangement has been mixed. The outcome of program through end-June 2018 has been weak by missing two out of four end-June 2018 quantitative performance criteria (QPC) and three indicative targets (IT). However, it has improved since second review by meeting five out of seven ITs for end-September 2018. Most structural benchmarks were implemented, albeit with some delay. Nonetheless, the continuous ceiling on external arrears was missed constantly. We note that risks to the program are high. At the same time, steps are being taken to keep the program on track with continued commitment to the program expressed by the authorities. Hence, we support the completion of the third review of the EFF arrangement but would like to highlight risks to the program and the need for the authorities to remain steadfast in their commitment.

The expected firming up of the recovery over the medium-term will help maintain public debt at a sustainable level. Growth is expected to be supported by continuous FDI flows into the non-oil sector. Hence, we support authorities' plan to maintain the policy stance and reforms agreed under the EFF arrangement to strengthen macroeconomic stability, promote strong, inclusive and private sector-led growth as indicated in the buff Statement. This should be complemented by a carefully articulated strategy to improve human capital and key infrastructure to support economic diversification. We encourage the authorities to use the new environment with defused political and social tensions, which has been created after the October 2018 elections, to continue with growth-enhancing deep reforms.

Fiscal consolidation should remain as the cornerstone to contribute to regional fiscal and external stability and reduce fiscal risks. In this context, further enhancing non-oil revenue mobilization is strongly called for. We also note staff's comment that weaker administration capacity and coordination could trigger delays in reform implementation and meeting revenue target. Could staff comment on how the Fund could be helpful in addressing any capacity constraints? Appropriate changes in the composition of public spending, and safeguarding of pressing social and investment spending, while containing the wage bill will also be critical. We regret that the floor on social protection spending has been missed continuously. Could staff comment on the extent that automatic adjustment mechanism for public spending in the 2019 draft Budget Law will affect the pro-poor spending and the expected way forward in preserving social protection spending? Staff reports also highlight the precarious financial position of several public agencies and enterprises. We stress the need for strong measures to reduce contingent liabilities of these enterprises. Staff comments are welcome on the key measures related to this. Continued efforts are also important to improve the deeply entrenched public financial management issues to improve fiscal transparency and governance.

Improved debt and cash liquidity management is essential to prevent the accumulation of domestic and external arrears. While encouraging the ongoing measures in this regard, we support the authorities' intention to appoint a long-term expert to support the implementation of planned measures. Could staff comment?

Gabon's banking sector is adequately capitalized and remains generally sound, but further measures are needed to preserve financial system stability to support growth. We positively note the ongoing efforts to advance the resolution of public banks and encourage the authorities to speed them up.

Given the growing NPLs and overdue loans, staff's comments are welcome on the slow progress of introducing a framework for resolution of NPLs. Repercussions related to the slower clearance of arrears should also be managed closely. In the context of stability of the region's monetary arrangement, we encourage the Gabon's authorities to take appropriate actions on the repatriation of export earnings to contribute in rebuilding regional foreign reserves.

Finally, we note that the completion of the fourth review of the EFF is conditional on union level measures, due to the linkage between the Gabon's program and the CEMAC monetary union's policies. Could staff elaborate the key union level measures related to this and comment on the risks in effectively meeting such commitments as well as their potential impact on Gabon's program? We encourage the plans to review regional strategy implementation and identify any additional corrective measures at the national and regional policy levels.

With these remarks, we wish the Gabonese authorities all success in their future endeavors.

Mr. Sun and Ms. Lok submitted the following statement:

We thank staff for the comprehensive report, and Mr. Raghani and Mr. Nguema-Affane for the helpful buff statement. Economic activity in Gabon is slowly recovering amid a challenging environment. Looking ahead, the economy's outlook hinges on the determination of the authorities to implement the necessary fiscal and structural measures to preserve stability and support growth. Successful implementation of program measures would also contribute to broader regional stability and sustainability.

Having regard to the authorities' commitment and recent program performance including the implementation of corrective measures and completion of prior actions, we support the completion of the third review under the Extended Fund Facility, as well as the authorities' requests for a waiver of nonobservance of a Performance Criterion (PC), and the proposed modification of a PC. Nevertheless, there remains room for improvement, and we encourage the authorities to take advantage of the window of opportunity created by the completion of elections to press ahead with necessary reforms in a steadfast and timely manner to avoid slippages going forward.

Forceful actions to boost non-oil revenue and contain non-priority expenditures are needed to ensure fiscal consolidation remains on track. On

the revenue side, we look forward to further progress in the authorities' current and planned measures to broaden the tax base, remove unjustified tax and customs exemptions, and curb tax evasion. On tapping new sources of revenue, could staff provide more information on the new tax on household waste, and whether this may create a burden for lower-income households? On the expenditure side, with the elections completed in October 2018, the planned reductions in the wage bill should be implemented without further delay. Consolidation efforts should also be complemented with necessary structural reforms to enhance the authorities' overall administrative capacity and public financial management. Meanwhile, the authorities should strive to enhance debt management and prevent the accumulation of new external and domestic arrears. To this end, we welcome the authorities' efforts in improving cash management with the help of the Fund's technical assistance.

As fiscal consolidation continues, it is important to ensure that the vulnerable remains sufficiently protected. We continue to stress the importance of social spending and take positive note of the authorities' collaboration with the World Bank on setting up a Social Expenditure Committee to improve the targeting of social spending based on the recently completed household survey, which will help direct resources to those in need. The authorities view that social spending as defined under the program does not accurately capture their efforts and intend to more comprehensively define the scope of social spending. What is staff's view on the broadened definition and how will this be taken into account in the next review?

Safeguarding financial stability and improving the business environment are key to sustainable growth. The three public banks in distress should be liquidated swiftly to avoid further drain on the budget. In this regard, we welcome the establishment of a liquidation support group to facilitate an orderly liquidation process. In the meantime, the clearance of domestic arrears and resolution of nonperforming loans would allow the financial sector to better support economic growth. Finally, we support structural measures to strengthen institutions and create a conducive environment for further promoting sustainable and inclusive growth.

With these remarks, we wish the authorities every success in their policy endeavors.

Mr. Ostros and Ms. Gunnarsdottir submitted the following statement:

We thank staff for the report and Mr. Raghani and Mr. Nguema-Affane for the informative buff statement. We are encouraged by the

improved program implementation since the conclusion of the second review but despite projections of improved economic conditions going forward we continue to be deeply concerned about the persistent risks to the program, including new arrears accumulation and weak program implementation. We broadly share staff's appraisals and can go along with the proposed decision but offer the following comments for emphasis.

Steadfast implementation of Gabon's fiscal consolidation plan is of highest importance including measures such as boosting non-oil revenues, eliminating tax exemptions, and containing non-priority spending, while social and infrastructure expenditures need to be protected. Furthermore, reforms to strengthen fiscal transparency and governance, cash and debt management are vital to restrain fiscal slippages. We encourage the authorities to continue to transpose the CEMAC directives on public financial management into the Gabonese legislation and we take positive note of authorities' intentions to apply for the EITI in 2019.

The accumulation of new arrears underscores the structural problem with Gabon's current liquidity management system. We encourage the authorities to work towards improving the system and clearing all existing arrears. The consolidation of the treasury single account will be important in this regard. We take note of the corrective measures taken by the authorities on clearing the outstanding arrears with some milestones already achieved.

Ensuring external stability is critical for growth in the CEMAC region and we recognize the role a successful program in Gabon can play in supporting the regional economic strategy. As Gabon's reserve coverage remains below appropriate levels, continued fiscal consolidation and closer monitoring and following through with the repatriation of forex by exporters in Gabon will help rebuild BEAC's international reserves and buffers. We encourage the authorities to update the legislation on repatriation and surrender of export receipts in line with the new revised draft legislation prepared by BEAC.

Mr. Psalidopoulos and Mr. Persico submitted the following statement:

We thank staff for a comprehensive report and Mr. Raghani and Mr. Nguema-Affane for their informative buff statement. We support the completion of the third review of the Extended Fund Facility (EFF). We will limit our remarks to the following comments.

We note the uneven program implementation. The weak program performance through end-June was unfortunate. However, the authorities achieved significant improvements by end-September, but the performance criterion on avoiding new external arrears continued to be missing. We encourage the authorities to timely implement the envisaged strategy for the settlement of external debt arrears. In light of the authorities' commitment, we support the waiver of the related program criterion.

We commend the authorities for their achievements in enlarging the tax base and improving the tax administration. It is unfortunate that the better revenue performance has been partially offset by the higher expenditure due to the recent elections. However, the authorities expect to be able to reach an adjustment above the program's target of 0.7 percent of the non-oil GDP in 2018, thus providing a significant contribution to the CEMAC external stability. We welcome this outcome and we encourage the authorities not to deliver this adjustment through slower execution of capital expenditure. We call for additional efforts on enhancing public financial management to avoid liquidity constraints and to pursue strategic investments. While automatic measures to control the deficit might be helpful, we share the staff's advice on avoiding automatic adjustment that would affect priority programs.

The inability of the authorities to deliver the targeted level of social spending is concerning. While the indicative target (IT) on social expenditures has been missing since the beginning of the program, recent efforts to protect the most vulnerable groups and to improve education are welcome. We note the statistical issues raised by the authorities on the coverage of the indicator on social spending. Could staff provide greater details on the impact of the suggested statistical review on the relevant indicative target performance? We look forward for improvement in social programs monitoring and reporting. Building on the experience of other programs, we see merit in the modification of this IT into a quantitative performance criterion in the next review.

Gabon should make further progress on diversifying the economy and we would have appreciated some analysis by staff on the strategy to achieve this outcome. In the medium-term the ability of consistently attracting foreign direct investment is key; in this regard, we welcome the authorities' application to the Extractive Industries Transparency Initiative (EITI).



Ms. Levonian and Mr. Sylvester submitted the following statement:

We thank staff for their useful report and Messrs. Raghani and Nguema-Affane for an insightful buff statement.

We welcome the commitment shown by the Gabonese authorities since the completion of the second review of their Extended Fund Facility (EFF). Program implementation improved significantly, and further progress was made in restoring macroeconomic balance. Against this backdrop, we support the completion of the third review of the EFF and other proposed decisions. We offer the following additional comments for emphasis.

We urge continued strong commitment to mitigate significant downside risks to program implementation. Since commencement, the program has suffered from risks associated with failure to implement planned reforms. With program implementation now on a relatively satisfactory footing, the authorities should guard against future setbacks. In this regard, we welcome the establishment of a dedicated committee to monitor the program's implementation and to coordinate reforms across government institutions. We note, for example, that one of the reasons for the missed PC on the accumulation of external arrears was lack of coordination between two government departments. Accordingly, such a committee should help spot these bottlenecks and facilitate timely corrective action.

Fiscal policy priorities remain appropriate. The authorities have reaffirmed their commitment to fiscal discipline. However, staff has alluded to several implementation risks, including revenue underperformance. Accordingly, like staff, we stress that in case such risks materialize, the authorities should, *inter alia*, focus on preserving pro-growth and pro-poor spending while targeting cuts to low priority expenditures.

Fiscal structural reforms will support fiscal discipline. We note positively the progress made in revenue mobilization reforms as well as on the expenditure side. We urge the authorities to advance these reforms to strengthen the public financial management (PFM) framework, including to improve the oversight and transparency of government agencies and state-owned enterprises.

We urge the authorities to reduce banking sector vulnerabilities to support growth. The continued deterioration in non-performing loans (NPLs) is worrying. We are also concerned about the deteriorating financial situation of the distressed state-owned banks. Like staff, we call on the authorities to

accelerate the resolution of these banks and to expeditiously tackle the high and rising NPLs situation.

We reiterate our call for stronger coordination. The continued weak reserve position at the Bank of Central African States (BEAC), owing to delays in external financing, mixed program performances across the CEMAC region, and slow repatriation of export proceeds is concerning. A better coordinated response by the CEMAC member countries, the union-wide institutions, the Fund, and other partners should support reserve accumulation.

Mr. Meyer and Mr. Braeuer submitted the following statement:

We thank staff for their informative report and Mr. Raghani and Mr. Nguema-Affane for their helpful buff statement. We acknowledge that program implementation has improved, following very weak program performance through End-June 2018. Five out of seven indicative targets have been met and most structural benchmarks implemented, and we are encouraged that the corrective measures included in the 2018 budget have been fully implemented. However, more needs to be done to improve debt management, address shortfalls in social spending, and enhance domestic resource mobilization. Against this background, notwithstanding remaining concerns, and assuming all prior actions will be fulfilled, we consent to the third review, the requested waiver of nonobservance and the proposed modification of Performance Criterion.

The repeated accumulation of new external arrears is concerning, and we agree with Ms. Pollard that decisive action to improve debt and cash management, including the establishment of a treasury single account, is needed to break the recurrent cycle of arrears accumulation. We take positive note of Mr. Raghani's and Mr. Nguema-Affane's statement that all official external arrears have been repaid and all external commercial arrears should be cleared by end 2018 and we urge authorities to fulfil this commitment. Can staff confirm that all official arrears have been cleared? Also, given that external commercial arrears have only been reduced by a minor amount since the second review and that authorities have had difficulties to fulfil earlier commitments to clear arrears, how does staff assess the capability to clear all external commercial arrears by End 2018?

Further fiscal consolidation will be necessary and we urge authorities to implement measures to boost non-oil revenues and contain non-priority spending. Continued fiscal structural reforms are needed, to further improve revenue mobilization. We take note that savings in the wage bill fell short of

the budget target because the authorities have not yet reduced bonuses and salaries. How does staff assess the chances of meaningful reform in this area given public opposition?

Social spending should be preserved to mitigate the impact of fiscal consolidation on the most vulnerable. We take note that the performance criterion related to social spending has repeatedly been missed. We understand that this was mainly due to low execution of investment expenditure in the education sector and transfers to social protection and encourage the authorities to take decisive action to adhere to the social spending targets.

Bearing in mind the exceptional circumstances in the CEMAC monetary union, with four out of six member countries having an IMF-supported adjustment program in place, we reiterate that program success first and foremost relies on strong adjustment in the respective member country. Prudent policies by the national authorities are all the more important and should be the first line of defense in order to safeguard stability also at the regional level.

Mr. Mouminah, Mr. Alkhareif and Mr. Rawah submitted the following statement:

We thank staff for a well-focused report and Mr. Raghani and Mr. Nguema-Affane for their helpful buff statement. We are in broad agreement with staff's analysis and policy recommendations and would limit our remarks to a few issues.

Despite the slow economic recovery, trade balance has improved while the banking system remains broadly sound. We also note that the medium-term outlook remains promising, with further improvement in the current account, supported by continued expansion of non-oil exports. However, risks remain tilted to the downside and hence emphasis on implementing structural reforms to support economic diversification and private sector-led growth is warranted.

We support the completion of the third review under the extended arrangement and the associated decision. In this context, we take positive note of the improvement in the program performance since the completion of the second review, supported in part by the full implementation of the corrective measures encompassed in the 2018 supplementary budget. Here, it is encouraging to note that most of the end-September ITs and SBs were met albeit with some delays. In this context, we commend the authorities for their

commitment to achieve the program objectives. In addition, the authorities' efforts to clear debt arrears are welcome, including improving cash liquidity management and the steps taken to establish a single TSA. Here, we would like to encourage the authorities to press ahead with their efforts and to prevent the emergence of new arrears.

We support the authorities' commitment to pursuing fiscal consolidation and would like to stress the importance of further strengthening fiscal transparency and improving PFM. Despite the delays in the implementation of several measures under the 2018 supplementary budget, the 2018 non-oil primary fiscal deficit is projected to be smaller-than-programmed on the back of slower-than-expected domestically financed expenditure. We also note staff's assessment that the 2019 fiscal policy stance is appropriate and in line with the program and that the overall fiscal deficit would further be reduced. Notwithstanding the expected improvement, fiscal discipline could be further promoted by advancing the reforms to strengthen the PFM and fiscal transparency. In this context, we see room for improvement and we take note of the authorities' efforts in this regard.

Finally, while we note that the macro-financial risks are broadly contained, addressing the current banking system vulnerabilities is critical to preserve financial stability. Here, we encourage the authorities to finalize the planned NPL strategy by end-March 2019, as noted in the buff statement. Also, we take positive note of the indication that the resolution of the three distressed public banks is advancing. On a separate but related note, the authorities' efforts to support the recovery of BEAC's regional reserves are welcome.

With these remarks, we wish the authorities further success.

Mr. Lopetegui and Ms. Moreno submitted the following statement:

We welcome the staff report as well as the informative statement by Mr. Raghani and Mr. Nguema-Affane. Program performance has improved compared to the second review as most program targets were met, but it is not yet fully on track, which might pose risks to the fragile economic recovery. Thus, continued efforts to implement program policies are needed. Despite the risks presented in the report, we value the authorities' commitment to improve program implementation and their contribution to the regional effort to restore fiscal and external sustainability. Hence, we support the decision. In what follows we offer some comments for emphasis.

Public debt has declined to less than 60 percent of GDP in 2018. This is the result of continued service of debt and repayment of arrears, particularly external ones. We encourage the authorities to maintain this record by building buffers and improving their cash liquidity management to face times of tight liquidity. The latter is necessary since we notice that repayment of arrears occurs just near the program review deadline and public finances would benefit from better management. Could staff explain what are the risks of the authorities not adhering to the plan on domestic arrears clearance?

Fiscal consolidation is on a better path than in the second review, though we agree with staff that progress in this area needs to be sustained. We see merit in the authorities' efforts to improve domestic revenue mobilization and rationalize expenditure. Beyond all the measures listed in the statement by Mr. Raghani and Mr. Nguema-Affane, including elimination of tax exemptions, we welcome the emphasis on fiscal transparency and the creation of the financial oversight unit for public entities.

There are risks to financial stability coming from the unresolved situation of three distressed banks and the poor quality of banks assets in the system. We welcome the authorities plan to convert part of its domestic debt into marketable securities. Could staff elaborate about which market participants will be the buyers, and traders, for these securities? Should it be expected to be a liquid and deep market for them? Regarding NPLs, we note that they keep increasing. Could staff shed light on the reasons behind this increase? We take good notice of the authorities' plan to liquidate the banks with a liquidation support group, and refrain from bank capitalization with fiscal funds.

We acknowledge the authorities' will to improve business climate and foster economic diversification to reduce dependence on oil. Looking into the medium term, and with the assistance of the Fund and other development partners, growth can become less oil-dependent.

Like Mr. Fachada, Ms. Benoit, and Ms. Florestal, we commend the authorities for the improved macroeconomic data. Better policies require quantitative analysis based upon reliable data.

With these comments, we wish Gabon and its people success in their endeavors.

Mr. Moreno and Ms. Mulas submitted the following statement:

We thank staff for its insightful reports, including the recent supplementary information, and Mr. Raghani and Mr. Nguema-Affane for their informative buff statement.

Gabon's difficult economic situation requires strong and long-term commitment to correction. Gabon needs a strong policy response based mainly—though not exclusively—on fiscal reform. Debt sustainability, opening space for the private sector to flourish, reducing its dependence on oil, avoiding the accumulation of arrears and maintaining priority social spending are all key components.

We support the completion of the third review, as well as the request for waiver of nonobservance of performance criterion on external arrears, considering staff's recommendation. We welcome staff's recent information on the completion of the three prior actions established for the completion of the third review under the Extended Arrangement. The performance on program conditionality has improved compared to end-June 2018, as the four quantitative performance criteria (QPCs) were met. However, the continuous QPCs on accumulation of new external arrears by the central government was missed again and the recent update information increases the gross accumulation of external arrears since the completion of the second EFF review. Besides, the targeted reduction in domestic arrears and social protection spending were not met, as per the previous revision. Given the above, we urge authorities to strengthen their efforts to improve program implementation and contribute to the regional effort to restore fiscal and external sustainability.

Our main concern is the need to meet the targeted social protection spending. While Gabon is considered an upper-middle-income country, about 30 percent of the population remains vulnerable, living with monthly incomes below the guaranteed minimum. Besides, in the 2018 Statistical Update, Gabon ranked 110 out of 189 countries on the Human Development Index developed by the United Nations Development Programme. Authorities should adhere strictly to the targets on social protection spending to protect the vulnerable, to mitigate the adverse impact of the ongoing macroeconomic reforms on the poor and to enhance political stability. Could staff elaborate on the measures proposed by the authorities to meet the targeted social protection spending?

We also consider the repeated accumulation of new external arrears as a major issue. We urge a timely implementation of the corrective measures to prevent the accumulation of new external arrears. We welcome IMF's technical assistance, including the development of weekly cashflow forecasts, to help strengthen debt and cash management and avoid the accumulation of new arrears.

On fiscal policy, we commend the authorities for the improvement in non-oil revenue by end-September 2018. Sustained domestic revenue mobilization resulted in improved non-oil revenue performance. However, expenditures also exceeded programmed levels due to the costs of the legislative and local elections held in October 2018 and delays in the rationalization of public agencies. We encourage authorities to remain committed to pursuing fiscal consolidation and addressing weaknesses in public financial management to deliver quality adjustment and avoid further debt accumulation.

Over the long run, we deem necessary to foster Gabon's economic diversification to reduce risks and encourage growth. Gabon's economy is overwhelmingly driven by its oil sector. The oil sector has accounted for 80 percent of exports, 45 percent of GDP, and 60 percent of fiscal revenue on average over the past five years. However, as the country is facing a decline in its oil reserves, diversification is key to maintaining economic growth. Against this background, we urge for timely implementation of structural reforms, particularly to improve the business climate and unlock private investment. Does staff consider that the recent capital investment in export-oriented sectors such as mineral processing (especially manganese), forestry, fisheries and agriculture (including palm oil and rubber) could enhance a change in Gabon's pattern of growth?

Mr. Daïri and Mr. Osei Yeboah submitted the following statement:

We thank staff for the well-written report and Mr. Raghani and Mr. Nguema-Affane for their helpful buff statement. Amidst regional challenges and a tense political environment related to the October 2018 elections, growth continues to improve, aided by higher oil prices for most of the year, inflation remains low, and the trade balance is improving. Program implementation has also improved since the second review, reflecting strong commitment of the authorities. Risks to the outlook are policy slippages and adverse developments in the oil production and prices. We concur with the thrust of the staff appraisal and, in view of the authorities' demonstrated commitment, support the proposed decision.

Fiscal consolidation and a judicious debt management strategy are vital to preserving macro-financial stability and debt sustainability. We welcome revamped revenue administration and rebalancing of spending toward investment that, together with strengthened fiscal governance and improved cash management, will be essential to meet the 2019 fiscal targets. We share staff concerns that weak institutional capacity, unless strengthened significantly, could derail efforts to curtail fiscal risks. We note with concern the significant built-up of external payments arrears and urge swift action to clear the stock of arrears and avoid new accumulation. The recent improvements in the oversight of public agencies and data sharing arrangements between debt management units and the treasury are welcome steps to limit contingent liabilities and remain current on debt service.

Macro-financial risks are broadly contained, and bank deposits and private sector credit have continued to grow. The Gabonese banking sector is generally sound and profitable, but NPLs are rising and 3 distressed banks are in the process of liquidation. The authorities' commitment to swift, orderly and transparent resolution of troubled banks and reducing NPLs is welcome. While we find COBAC's efforts to strengthen regulations on banks' net open position appropriate, we urge COBAC and BEAC to enhance the supervision framework in line with Basel standards and fully implement the recommendations on IFRS. We commend BEAC for its tight monetary policy stance and its efforts to increase reserves through enforcement of regulations on repatriation of export proceeds.

As indicated by Mr. Raghani and Mr. Nguema-Affane, the authorities' commitment to further reforms to promote private sector activity and strengthen SMEs will help advance diversification and reduce dependence on oil. Reinforcing the judicial system in dispute resolution will be useful. We welcome the authorities' commitment to improve targeting of social spending and protecting vulnerable groups, with technical assistance from the World Bank.

We wish the authorities success in their endeavors.



Mr. de Villeroché, Ms. Riach, Mr. Castets, Mr. Bellocq, and Ms. Stockill submitted the following joint statement:

We thank staff for their comprehensive set of reports and Mr. Raghani and Mr. Nguema-Affane for the insightful buff statement.

Program implementation was weak through end-June this year, with two out four end-June Quantitative Performance Criteria missed, as well as the Continuous Performance Criteria and all indicative targets. Like staff, we consider that performance has improved since end-June thanks to the implementation of the package of corrective measures which were included in the 2018 supplementary budget. Against this background, we support the completion of the third review of the Extended Arrangement under the Extended Fund Facility, as well as the waivers of Nonobservance of Performance Criteria. However, we urge the authorities to further improve the program's performance, notably by enlarging their fiscal space with greater non-oil revenue, as well as the full implementation of the foreign exchange regulation. The recent decrease in international oil prices illustrates that implementing fiscal consolidation based on non-oil revenue mobilization has to remain a key program objective in order to support the medium-term perspective and manage the numerous downside risks weighing on Gabon. Could staff provide an update on the latest progress on prior actions, and external arrears clearance, since the Review papers were issued?

On the fiscal side, the fact that the non-oil primary deficit will be smaller than expected this year is a positive development. However, we note that this results from a cut in domestic capital expenditure and we would like to reiterate our call for a balanced fiscal consolidation relying mainly on revenue-side measures and well targeted expenditure side measures, including greater expenditure effectiveness. Looking forward, we urge the authorities to implement the revenue measures expected under the 2019 budget, notably the elimination of ineffective tax exemptions. Poverty and social inclusion are critical issues in this resource rich country, and we were disappointed to note that social protection spending was below target. We encourage the authorities to continue their efforts to ensure social spending and subsidies are sufficiently targeted, in line with the findings of the Poverty Assessment Survey. Could staff elaborate on the distributional effects of the elimination of tax exemptions, in particular the elimination of the “programme de lutte contre la vie chère”; what compensatory measures should be taken to make these measures sustainable for the poorest households? We also note the authorities have set up a Social Expenditure Committee and are working to better target vulnerable groups, but we would like staff to indicate more

precisely how this process might be taken into consideration under the program? Indeed, we are convinced that making economic growth more inclusive should be a key objective for the IMF-supported program, in line with the regional strategy established by CEMAC heads-of-State.

Strengthening cash management has to be a top priority in order to avoid new episodes of arrears accumulation. Clearing and avoiding new domestic arrears will be key to fostering economic growth in the short term and reducing impediments to economic diversification over the medium term. Avoiding external arrears accumulation is also necessary to preserve good relationships with external creditors and development partners, and we urge the authorities to meet the Continuous Performance Criteria of 0 new external payment arrears moving forward. Regarding the long-term expert who will be requested to help the authorities in improving cash management, could staff indicate whether this expert will be provided by the Fund or be outsourced?

Finally, we encourage the authorities to enhance their efforts to improve governance and fight corruption. In this regard, we take good note of the Public Finance Management measures to be implemented next year and we look forward the authorities to applying to the EITI as expected (Structural Benchmark for end-September 2019).

Mr. Trabinski and Mr. Danenov submitted the following statement:

We thank staff for the comprehensive report and Mr. Raghani and Mr. Nguema-Affane for their informative buff statement. We welcome the progress achieved since the second review under EFF. Despite challenging macroeconomic conditions, corrective measures enclosed in the 2018 supplementary budget have been implemented, and most end-September indicative targets and structural benchmarks have been met. We note the commitment of the authorities to the Fund-supported program. Given the five-year window in the election cycle ahead, we expect the authorities to accelerate the implementation of ambitious economic and structural reforms. We support the completion of the third review under the EFF.

We remain concerned by the repeated external arrears' accumulation and the generally weak debt management. We urge the authorities to ensure the consolidation of the treasury single account. In this regard, we welcome the cooperation with staff on the improvement of cash management, with a view to preventing the resurgence of arrears. Could staff elaborate on Gabon's medium-term ability to clear arrears? Considering the importance of achieving the indicative target on social spending, we welcome the 2018 Supplementary

Budget envisaging an expenditure increase on education and social protection, as well as the establishment of the social expenditure committee with assistance from the World Bank. We also support further strengthening of the financial oversight of public agencies and state-owned enterprises.

We encourage the authorities to improve the situation in the financial sector. Despite broad money growth, and the pick-up in bank lending and overall profitability of the sector, asset quality has deteriorated and NPL ratios remain high. We encourage the authorities to strengthen the regulatory and supervisory framework. We also note that the situation around three distressed public banks has lingered and continues to affect the financial sector's overall condition. In that regard, we support staff in recommending an orderly and expedient process of liquidation, also given the potential budgetary impact.

We encourage the authorities to implement structural reforms in order to strengthen governance, improve the business environment and boost competitiveness. We welcome the commitment to the reforms laid out in the Economic Recovery Program and the Emerging Gabon Strategic Plan. Taking into account the anticipated growth of investments in Gabon's oil sector, it is particularly important to enhance public financial management, transparency and anti-corruption practices.

Mr. Just submitted the following statement:

We thank staff for the report and appreciate the comprehensive discussion on how the program strategy will address weaknesses or gaps in Gabon's policy framework. The sections on CEMAC and how the design of Gabon's program supports the regional strategy is also valuable. We thank Messrs. Raghani and Nguema-Affane for the buff statement. Some of the policy reform momentum Gabon had to develop to complete the second review has been carried over to this review and resulted in an overall satisfactory program performance. However, progress to address more protracted structural fiscal and economic weaknesses continues to be uneven. We find it difficult to accept that the conditionality on social spending was again not met and that Gabon continues to accumulate external arrears. We acknowledge the corrective as well as the prior actions by the authorities.

The fiscal recovery is fragile while progress on building buffers has still to produce tangible results. The oil price continues to be the main structural vulnerability of Gabon's fiscal accounts. Measures to address revenue shortfalls have affected primarily capital and social spending with detrimental effects on potential growth and social cohesion. In addition, the

continuing accumulation of domestic and external arrears reflect insufficient fiscal discipline as well as weak cash and debt management practices. We acknowledge that the establishment of the dedicated committee monitoring the program should facilitate coordination across government agencies, help with proactive rather than reactive policy responses and increased ownership of the structural fiscal measures that are either in the process or will be implemented. We expect that the severe governance weaknesses affecting PFM will be rectified over time and that the quality of fiscal measures will improve. The consolidation of the TSA is a significant step in this respect as is the full elimination of tax exemptions. We urge the authorities to advance their commitment and reduce the public sector wage bill as well as the pervasive footprint of the government in the economy. Overall, the authorities need to increase transparency on the use of fiscal resources and bring all government agencies as well as SOEs into the fold of accountability.

Payment discipline and respect of contractual obligations need to improve. The authorities still need to make more sustained efforts to address both domestic and external arrears. We expect that some of the recently agreed control mechanisms will help in reducing the likelihood of accumulating external arrears. We stress that penalty fees even on recently cleared arrears result from the contractual agreed repayment terms and need to be adhered to. The authorities need to ensure that payment due dates are met in order to avoid a recurrence of such external arrears. We emphasize the urgency to implement the domestic arrears clearance plan. The effects continue to weigh down heavily on the economy and the financial sector. Swift and sustained progress on this front is essential from the perspective of the regional strategy to safeguard and increase financial stability. We note that staff has ascertained that Gabon is making a good faith effort with external commercial creditor but stress that similar effort is not forthcoming toward external creditors that are not covered by the LIA policy.

Social spending is essential to advance pro-poor and include growth. Gabon's repeated failure to preserve pro-poor spending is difficult to accept. Gabon is rich on a per-capita income basis, but poverty and inequality are pervasive features of Gabon. We are concerned about the consequences for the population due to underspending on health resulting in the deterioration of existing health infrastructure and the as of yet unspecified transition to a new public health strategy under the auspices of the World Bank. We understand the difficulties to define meaningful indicators and targets to monitor social spending and target the most vulnerable. We see this as a challenge for development partners not only in Gabon and hope that the forthcoming social

protection discussions will contribute to better targeted social spending and to improve social outcomes.

The Acting Chair (Mr. Furusawa) made the following statement:

Gray statements have noted an improvement in program implementation over the past few months. The authorities have taken corrective measures and demonstrated their continued commitment to the regional strategy to strengthen external stability. However, as Directors have also emphasized, much more needs to be done, and it is critically important that the authorities implement the planned fiscal consolidation and structural reforms to preserve macroeconomic stability and support inclusive growth. The fiscal adjustment should focus on boosting non-oil revenues and containing non-priority spending. The continued efforts are necessary to prevent accumulation of new or extended arrears and strengthen the debt management. Enhancing public financial management will also help support the authorities' fiscal strategy.

At the same time, it is important that the authorities address the shortfalls in priorities in social spending to protect the vulnerable.

Mr. Saito made the following statement:

We thank the staff for the comprehensive report and useful outreach. We also thank Mr. Raghani for the informative statement. As we issued a gray statement, we would like to make one general comment and one specific comment for emphasis.

First, on the program performance, at the last Board meeting, we expressed our position that without explicit improvement of program performance, we would not support the completion of the next review. Our position has not changed. In this context, we take note that the program performance as of the end of June, which is the target of third review, was weak. Furthermore, some of the program targets, including no accumulation of external arrears, have been missing since the start of the program. However, we acknowledge that the authorities have taken corrective actions with strong ownership despite the challenging period before the election, and in fact, there has been some improvement since the last review. Against this background, we support the completion of the third review, though reluctantly. We urge the authorities to implement reforms steadfastly and meet conditionality without delay for the next review.

Next, on external arrears, like many other Directors, we are concerned about repeated accumulation of new external arrears, which are cleared just before the Board meeting. On this point, we echo Ms. Pollard and Mr. Meyer that decisive actions to improve debt and cash management are needed to break the current cycle of arrears accumulation.

On the commercial external arrears, we note from the staff's response to technical questions that disbursements of the bridge loan expected within the next week should enable quick clearance of the remaining stocks. While we recognize the measures to prevent end-of-year fiscal slippages, we recall last year's case where the authorities committed to clear external arrears by the end of the year but failed to meet the commitment. Given this track record, we would like to ask whether the staff has considered the option of setting the clearance of accumulation of external arrears as a prior action of this review. The staff's comments are welcome.

Mr. Castets made the following statement:

We thank the staff for the comprehensive, candid, and insightful report and also for the answers to our technical questions. We also thank Mr. Raghani and Mr. Nguema-Affane for their insightful buff statement.

We issued a joint gray statement with Ms. Riach in which we support the completion of the review, so I would like to make some additional points for emphasis. The first one regards program performance. It has been improving since end-June, thanks to the implementation of the corrective measures that are well detailed in the report and which were presented to the Board in July. As a result, the fiscal deficit will be smaller than expected in 2018, and this is clearly a positive development, as also underscored by many Directors in their gray statements. But these efforts must be pursued and strengthened, given the need for fiscal consolidation in the country.

I also would like to stress three additional issues that will be critical in the coming months. The first one regards the non-oil revenues. It is one of the main pillars of the ongoing adjustment, and this is a key aspect of the regional strategy implemented in the Central African Economic and Monetary Community (CEMAC) more broadly. It is the best way to preserve Gabon from oil price volatility. To deliver on this major issue, we look forward to seeing the staff's rationalization of the tax exemption next year as also embedded in the program.

The second point regards social spending. Gabon, as also highlighted by many Directors in their gray statements, is a resource-rich country but with widespread poverty, and we note that indicative targets have been missed again. While indicative, these targets are instrumental—for this Chair, as well as for many others—to ensure that the fruits of growth are more broadly shared.

In this regard, we also would like to call the staff's and the authorities' attention to the phaseout of the *programme de lutte contre la vie chere*, and we wonder whether some compensatory measures should be reflected as it will be phased out.

My third point regards cash management, as already alluded to by Mr. Saito, and it should stand high on the authorities' priority list.

Lastly, and as has been already underlined during a previous Board meeting, we encourage the authorities to apply to the Extractive Industries Transparency Initiative (EITI) as expected under the program.

Mr. Just made the following statement:

Thanks to the persistence of the staff, as well as increased ownership by the authorities, the program is finally starting to address the severe fiscal governance problems and the lack of both transparency and accountability. By applying the many measures proposed by the staff, the Gabonese authorities should be able to implement, execute, and use the necessary tools and frameworks and hopefully improve administrative capacity and strengthen policymaking capabilities, which are also necessary to fight persistent corruption.

Fiscal and financial buffers are scarce, while risks from the unfavorable commodity price developments and from the overall CEMAC net foreign assets (NFA) targets, which may require additional efforts at the national level, persist. We would have liked to get a better sense of possible contingency measures and encourage the staff to take this up in future reviews.

Inequality in Gabon is rampant, and we regret that the social spending target, which is rightly a pillar of the program, was again missed. Underlying conceptual and data issues have limited the effectiveness of the target thus far. In view of the results of the household surveys that have become available, we ask the staff, in consultation and close cooperation with the World Bank, to

have another look at the social spending targets and to revise it in a way that it becomes meaningful and effective but also supports the policies of the authorities.

Parts of the newly accumulated external arrears resulted from late payment penalties for previously cleared Austrian arrears. I can confirm that the Austrian authorities have received almost the entire overdue amount on Monday, but some EUR 700 are still outstanding. On this, and since Gabon paid the previous amounts too late, penalty interest rates will accrue again. We hope that cash management and processes will be effective soon so that authorities will be in a position to pay the outstanding balance in full and on time.

Unfortunately, there is no progress in addressing the claim of an Austrian company in excess of EUR 50 million resulting from the management and servicing of the majority of hospitals in Gabon. Unlike the claims covered by the Lending into Arrears Policy that the staff asserts could save assets for the authorities, the authorities appear increasingly less collaborative to resolve this payment claim.

The arrears, whether domestic or external, are not a trivial matter. The stock of past external arrears seems to have been addressed to the extent that they benefit from the Lending into Arrears Policy, but still new external arrears were again accumulated. We have some reservations about granting another waiver on external arrears. However, program performance since September has improved. The corrective measures are appropriate, and we expect that those pertaining to the external arrears issue will address the operational deficiencies. We thus support the proposed decision.

Mr. Doornbosch made the following statement:

We support the completion of the review and the proposed decision, and we welcome Gabon's improved outlook and the progress made. I would like to come in on two issues that other Directors also commented on. First, on the recurring and persistent accumulation of arrears, the staff has rightly placed great emphasis on this in the report and also on the technical assistance (TA) provided. But I want to raise a broader question on this to the mission chief, because I wonder whether this accumulation of arrears is just a technical issue, whether it is just a matter of improved cash management, further TA, and then this could be thought of as a broader and deeper rooted issue. Maybe the authorities are not completely convinced of the pervasive



nature of this recurring pattern of accumulating arrears and paying them down.

The second question was the same as Mr. Saito, whether we should stick to the continuous performance criteria for arrears or maybe make this a prior action for a next program and why the staff has decided not to do so.

My second issue is on governance. The staff focused on fiscal governance, and I wonder whether the new governance framework will be applied in the next Article IV consultation and when that will be.

Ms. Mulas made the following statement:

We thank Mr. Raghani and Mr. Nguema-Affane for the informative buff statement and the staff for its insightful report, including the recent supplementary information, and for its written responses to technical questions. In particular, we appreciate the useful and clear response on the target for social protection spending, and we would like to reiterate the importance of meeting this indicative target to protect the vulnerable, to mitigate the impact of the ongoing macroeconomic reforms on the poor, and to enhance social stability, as Mr. Castets and others have highlighted. Social stability is key to address Gabon's long-term issues. Besides, as the staff notes, now that the political risks appear to have subsided with the completion of legislative and local election in October, there is a clear opportunity for deep reform.

While we agree that Gabon needs a strong policy response on fiscal reform, as this chair has previously highlighted, structural reforms are also key to reduce risk and to encourage growth. As the country is facing a decline in oil reserves, diversification is crucial to maintaining economic growth. Against this background, we encourage authorities to implement the structural and institutional reforms in a timely manner, particularly to improve the business climate and unlock private investment.

Mr. Fachada noted that one of the improvements in Fund conditionality was the floor on social spending, especially for countries with widespread poverty. It was difficult to understand why Gabon had repeatedly missed the target and why the authorities and the staff did not agree on the best way to measure social spending. The staff had stated that social spending would be reviewed in the next mission, and that the change in the definition of social spending could be incorporated in the next review in mid-2019. Consequently, he asked whether the targets for end-December 2018 and March 2019 would be missed before the review came to the Board in June.

Ms. Mannathoko asked for the underlying reasons for missing the target on social spending. It appeared that the authorities wanted to pursue a broader definition of social spending, but she asked why it had been so difficult for them to meet the narrower definition.

The staff representative from the African Department (Mr. Loko), in response to questions and comments from Executive Directors, made the following statement:<sup>1</sup>

I thank Directors for the insightful comments and questions, which will be helpful as we continue our dialogue with the authorities. I will elaborate on a few remaining issues and respond to questions raised today.

First, Directors asked about contingency measures in case lower oil prices or downside risks at the regional level materialize. For the staff, the first line of defense is further fiscal consolidation, but fiscal consolidation that protects social spending and investment and relies mostly on increasing non-oil revenue. The staff's analytical work has found that Gabon has a potential to collect higher taxes through reforms to improve the efficiency of the existing tax system, including through the reduction of exemptions, improved tax policy, and strengthened revenue administration. Over the last two years, there have been four Fund TA missions delivered on revenue administration and tax policy. The program already entails several of the recommended revenue mobilization measures. However, further gains are possible.

In November 2018, a TA mission identified several short- and medium-term tax administration measures to further boost non-oil revenue mobilization. The mission identified a set of additional short-term revenue measures to increase non-oil revenue by about 0.2 percent of GDP in 2019, and these have not been included in the program. A follow-up TA mission will be delivered by the Africa Regional Technical Assistance Center (AFRITAC) to accelerate the process, and a tax policy TA mission is planned in early 2019 to provide recommendation on poverty and possibly mining taxation.

Several Directors inquired about measures to address shortfalls in priority social spending. The authorities remain committed to their social spending objectives, and during the discussion, they still reiterated that they will make all efforts to achieve the end-December 2018 and end-March 2019

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<sup>1</sup> Prior to the Board meeting, SEC circulated the staff's additional responses by email. For information, these are included in an annex to these minutes

target. However, they believe that both the coverage and efficiency of this spending needs improvement.

They are in the process of refining the definition of social spending to include omissions such as pro-poor subsidies for heat and gas and mass transportation. The authorities also plan to further improve the efficiency of pro-poor spending. They expect that the result of the recent household survey will help better identify the most vulnerable groups and define well-targeted subsidy schemes.

Further work is needed to refine the definition of social spending, and the work will be done with the World Bank, and to set new targets, and that is why the staff plans to revisit the issue with the authorities during the next mission. We want to see the results of the household survey and see how based on these results they can define the most vulnerable groups and some well-targeted subsidy schemes to help the poor.

Several Directors also asked about measures to prevent new external arrears. To avoid the accumulation of arrears, measures are being implemented in three areas: debt management, cash management, and the coordination between the debt unit and the treasury. These are key constraints to paying the debt service on time.

Regarding the debt unit, a World Bank TA mission was in Gabon in November 2018. They left a series of recommendations to help strengthen capacity. These recommendations include measures to improve the authorities' debt database and provide the treasury better access to these data to facilitate cash flow forecasts. The authorities are committed to implement the recommendations.

To ease liquidity constraints and streamline cash management, we concede that measures to consolidate the treasury single account have taken longer than anticipated, but the recent closure and repatriation of accounts opened at the state depository corporation and the upcoming closure of accounts in commercial banks should alleviate liquidity pressures that have contributed to arrears accumulation in the past, and provide more visibility and control over the use of available liquidity.

The authorities are also undertaking a series of measures to improve cash liquidity management, measures that are deeper than those previously undertaken. These build on the recommendations of Fund TA from November 2018. These recommendations include the development of cash flow forecasts

on a weekly basis to enhance the coordination between the debt unit and the treasury. The authorities plan to request a long-term expert to support the implementation of these measures, which should help ensure the effectiveness. The staff considers that the strengthening of the treasury single account and implementation of the TA recommendation to improve cash liquidity are credible steps to avoid further arrears accumulation. However, if delays in paying debt service persist, the option of establishing a pre-credited account at the central bank to cover upcoming debt service due could be considered. Of course, such a decision needs to be approached prudently to avoid introducing rigidity into the treasury single account or further complicate liquidity management.

On governance, in the next Article IV report ,which should be in the first half of next year to talk, we plan to include a selected issues paper on governance issues in Gabon.

The staff representative from the Strategy, Policy, and Review Department (Ms. Sun), in response to the question about setting prior actions on the clearance of commercial arrears, noted that the Fund's Lending into Arrears Policy allowed the provision of a Fund-supported program despite the existence of arrears. In addition, the bar was set lower for commercial arrears, so as to avoid allowing commercial creditors to have veto power over a Fund-supported program.

Mr. Raghani made the following concluding statement:

I thank Directors, management, and the staff for their support for the completion of this review of Gabon's Fund-supported program under the Extended Fund Facility (EFF). I also thank the mission chief, Mr. Loko, and his team, for the constructive policy dialogue they have had with the authorities in Libreville and Washington and for the comprehensive responses to Directors' questions, to which I associate myself.

I have taken good note of Directors' useful comments and recommendations, which I will convey to the authorities. I particularly welcome Directors' recognition of the progress made by the Gabonese authorities in the implementation of their economic and financial program since the last review in August 2018.

I would like to reiterate the authorities' strong commitment to their program and to the regional strategy to strengthen the external stability of CEMAC. The authorities recognize the need to sustain adjustment efforts to enhance macroeconomic stability. At the same time, they will pursue the re-

implementation of structural reforms to further improve the business climate and advance economic diversification with a view to reducing the economy's dependence on oil.

The authorities acknowledge a point stressed by most Directors, that program implementation should be strengthened to further improve performance. The recently created committee to monitor the Fund-supported program is expected to help in this regard through better coordination across the government. Coordination between the Gabonese and other CEMAC national authorities, regional institutions, and the Fund will be strengthened through the tripartite consultations to ensure that the rollout of the regional strategy remains on track.

Fiscal consolidation will continue to be the centerpiece of the Gabonese program. The authorities agree on the need to intensify domestic revenue mobilization efforts and contain non-priority spending to further enhance fiscal and debt sustainability. They also intend to sustain the implementation of structural reforms to improve public financial management with a special emphasis on fiscal transparency.

Many Directors also stressed the need to strengthen cash and debt management to avoid accumulation of arrears. In this regard, the authorities will press ahead with the implementation of the recommendations of the recent Fund TA mission in this area.

The operationalization of the treasury single account being set up will contribute to a more efficient management of public resources.

As regards the debt, I would like to assure Directors of the authorities' commitment to service public debt and settle arrears on a timely basis. In particular, they intend to settle external arrears on non-guaranteed commercial loans by the end of this month, as agreed under the program. As the mission chief indicated earlier, the authorities will pursue the strengthening of debt management in line with recommendations of recent TA missions.

Directors expressed concerns about the low execution of social spending. This is well taken. In this connection, I would like to stress that preserving social spending remains a top priority in the authorities' agenda. Work is underway with the assistance of the World Bank to improve the definition and the monitoring of the social spending under the program. The authorities agree with Directors on the need to preserve financial sector stability. To this end, they will pursue the clearance of domestic arrears to

mitigate financial stability risks stemming from rising NPLs. Likewise, the resolution of public banks will continue with close collaboration with the Regional Banking Commission, COBAC.

The Gabonese authorities are determined to fulfill their commitments to strengthen external stability and adhere to the common policy agreed at the regional level. Accordingly, they will continue to transpose and enforce regional directives into domestic legislations, including the one on the repatriation and surrender of export receipts to help rebuild reserves at the regional central bank.

To conclude, I thank Directors for their support for the completion of the third EFF review.

The following summing up was issued:

Executive Directors recognized Gabon's improved program implementation. They welcomed the corrective actions taken by the authorities to keep the program on track and their contribution to regional efforts to restore fiscal and external sustainability, despite challenging macroeconomic conditions. Directors noted that while the macroeconomic conditions are gradually improving, risks are tilted to the downside, including risks to the program. Therefore, Directors stressed that strong program implementation and decisive structural reforms are critical to achieve strong and sustainable growth.

Directors underscored the need for further fiscal consolidation. They called for steadfast implementation of measures to boost non-oil revenue and contain non-priority spending, while protecting social and capital spending. In view of the risks of a revenue shortfall, they urged the authorities to remain ready to restrain current spending, as envisaged under the budget's automatic adjustment mechanism, to keep the fiscal program on track.

Directors stressed the importance of pressing ahead with the structural agenda to increase the efficiency and transparency of public finances. They highlighted measures to enhance budget execution, align expenditure commitment and cash flow plans, set-up the Treasury Single Account, and enhance oil revenue management and transparency. Directors regretted the recurrence of external arrears and underscored that continued decisive efforts are needed to strengthen cash and debt management to prevent new accumulation of domestic or external arrears.

Directors noted the need to reduce financial sector vulnerabilities. They emphasized that quick progress to liquidate the three distressed public banks and tackle the overhang of non-performing loans (NPLs) will support financial stability and promote credit to the private sector and growth. Directors welcomed Gabon's support for the BEAC's enhanced implementation of the foreign exchange regulations, including by ensuring adequate repatriation of export proceeds.

Directors noted that Gabon's program continues to be supported by the implementation of policies and reforms by the regional institutions, which are critical to the program's success. These comprise the implementation of the three policy assurances provided in the June 2018 Letter of Policy Support, as updated with respect to the assurance on NFAs by the December 2018 Letter, and as discussed in the December 2018 union-wide background paper. Completion of the fourth review will be conditional on the implementation of these policy assurances.

The Executive Board took the following decision

There was an objection by the office of Mr. Lerrick (US) on the decision Gabon—Third Review Under the Extended Arrangement Under the Extended Fund Facility, and Requests for Waiver of Nonobservance of Performance Criterion, and Modification of Performance Criterion (EBS/18/118, Sup. 1, 12/14/18).

**Gabon—Third Review Under the Extended Arrangement Under the Extended Fund Facility, and Requests for Waiver of Nonobservance of Performance Criterion, and Modification of Performance Criterion**

1. Gabon has consulted with the Fund in accordance with paragraph 3(c) of the Extended Arrangement under the Extended Credit Facility for Gabon (EBS/17/52, 06/06/2017) (the “Arrangement”) in order to review program implementation.
2. The letter dated November 20, 2018 from the Minister of Economy, Prospective and Development Planning (the “November 2018 Letter”), together with its attached Memorandum of Economic and Financial Policies (the “November 2018 MEFP”) and its Technical Memorandum of Understanding (the “November 2018 TMU”) and the letter dated December 14, 2018 from the Minister of Economy, Prospective and Development Planning (the “December 2018 Letter”) shall be attached to the Arrangement, and the letter dated June 5, 2017 from the Minister of Economy, Prospective

and Development Planning, together with all of its attachments and as subsequently supplemented and modified, shall be read as further supplemented and modified by (i) the November 2018 Letter and its attachments, and (ii) the December 2018 Letter.

3. Accordingly, the Arrangement for Gabon shall be amended as follows:

a. The targets for end-December 2018 and end-June 2019 for the performance criteria set forth in paragraphs 3(a)(i) through 3(a)(v) of the Arrangement shall be as specified in Table 1 and Table 2 of the November 2018 MEFP and further specified in the November 2018 TMU, respectively.

b. The continuous performance criteria set forth in paragraph 3(b)(i) of the Arrangement shall be as specified in Table 2 of the November 2018 MEFP and further specified in the November 2018 TMU.

4. The Fund decides that the financing assurances review specified in paragraph 3(e) of the Arrangement and that the third review specified in paragraph 3(c) of the Arrangement for Gabon are completed, and that Gabon may make purchases under the Arrangement, notwithstanding the non-observance of the continuous performance criterion on the ceiling on the accumulation of new external payment arrears by the central government specified in paragraph 3(b)(i) of the Arrangement, on the condition that the information provided by Gabon on performance under this criterion is accurate; and on the further condition that the information provided by Gabon on the implementation of the measures specified as prior actions in Table 4 of the November 2018 MEFP is accurate. (EBS/18/118, Supplement 1, 12/14/18)

Decision No. 16467-(18/109), adopted  
December 19, 2018

APPROVAL: April 21, 2020

JIANHAI LIN  
Secretary



## Annex

The staff circulated the following written answers, in response to technical and factual questions from Executive Directors, prior to the Executive Board meeting:

### Outlook/Risks

1. *Could staff comment on why no risk assessment matrix was put together for this review of Gabon's program?*
  - The risk assessment matrix is not strictly required for stand-alone UFR cases. It was not included in the staff report for this review due to space constraints and the need to provide for a fuller discussion of program performance. Staff plan to include a RAM in the next Article IV report.
2. *As in other CEMAC program documents, staff note that the authorities are ready to "identify and adopt any additional corrective measures at the national and/or regional policy levels" to sustain the regional strategy. What contingency measures do staff foresee the Gabonese authorities needing to take should downside risks at the regional level materialize?*
  - The authorities are committed to identify and adopt any measures necessary at the national level to allow for the continuation of the regional strategy. So, the contingency plans under the program to safeguard the national targets (automatic adjustment mechanism, privatization reserve) could be employed to buttress the region. In addition, potential for increasing non-oil revenue mobilization remains high.
3. *We note that the completion of the fourth review of the EFF is conditional on union level measures, due to the linkage between the Gabon's program and the CEMAC monetary union's policies. Could staff elaborate the key union level measures related to this and comment on the risks in effectively meeting such commitments as well as their potential impact on Gabon's program?*
  - Key union level measures are set in the recent staff report on CEMAC (EBS/18/114).
4. *Staff point out that the most immediate risk to the outlook is failure to implement the planned fiscal consolidation and critical reforms to preserve macroeconomic stability and support growth. What do staff think will be a main obstacle of steadfast program implementation? If the issue is weak administrative capacity and coordination, how do the authorities overcome?*

- Staff considers that weak coordination and administrative capacity are the main constraints for effective program implementation. The issue of coordination is being addressed through the newly-created program and reform monitoring committee, which will facilitate high-frequency meetings between different administrative units. On capacity, the IMF and other partners are providing substantial capacity-development TA focused on the key areas of weakness, notably cash and debt management and non-oil revenue mobilization.

## **Fiscal Policy**

5. *We also note staff's comment that weaker administration capacity and coordination could trigger delays in reform implementation and meeting revenue target. Could staff comment on how the Fund could be helpful in addressing any capacity constraints?*
  - Four TA missions were delivered on revenue administration and tax policy over the last two years. After identifying short- and medium-term measures to boost non-oil revenue mobilization, a recent TA mission in November provided advice on governance and management arrangements needed to accelerate the implementation of the updated revenue mobilization action plans and proposed a set of additional short-term measures. Follow-up TA will be delivered by AFRITAC Central. A tax policy TA mission on streamlining tax policies is also planned in early 2019.
6. *From Text Table 3, we note that most of the tax revenue measures are significantly underperforming staff projections at the time of the second review. Could staff provide more clarity on the discrepancy between the previous targets and projected actual numbers? Do staff feel confident that Gabon's revenue authority will be able to implement these reforms?*
  - Discrepancies between the previous targets for 2018 and actual projections are mainly explained by delays in implementing measures supporting the adjustment. Several measures required upgrading IT and business processes of economic agents, and some businesses needed additional time to accurately record and report data in line with new requirements. Customs authorities also provided new technical data and information, leading to a reassessment of the yields expected from the clearance of expired suspensive customs procedures and warehousing arrangements.
7. *Could staff comment on the extent that automatic adjustment mechanism for public spending in the 2019 draft Budget Law will affect the pro-poor spending and the expected way forward in preserving social protection spending?*

- The authorities are committed to protecting priority social and critical capital spending during the automatic adjustment.
8. *Could staff comment on how the work being done based on the completed household survey could change program targets?*
- The work being done based on the completed household consumption survey will in the short-run: (i) update the definition of the poor (*Gabonaises Economiquement Faibles*; GEF); (ii) link the eligibility threshold to the national poverty line and address current biases against large (usually poorer) families; (iii) update the social registry that is used as a basis for the delivery systems for social protection programs; and (iv) establish clear grievance and redress mechanisms.
9. *Could staff elaborate on the measures proposed by the authorities to meet the targeted social protection spending?*
10. *Staff views are also welcome on how the tendering process that the authorities cite as the reason for social spending delays could be strengthened; and on the differences in social spending definitions cited by authorities.*
11. *The authorities view that social spending as defined under the program does not accurately capture their efforts and intend to more comprehensively define the scope of social spending. What is staff's view on the broadened definition and how will this be taken into account in the next review?*
- With World Bank guidance, priority social spending under the EFF-supported program is limited to goods and services, transfers and investment in the ministries of primary education, higher education, health, vocational training, and social protection. The authorities explained that there were delays because (i) the 2018 supplementary budget was approved in mid-2018, and suppliers were not able to put together in time all the documentation required for

Gabon: Priority Social Spending (en milliards franc CFA)			
	2018		
	Budget	Q3	in %
<b>Education and vocational training</b>			
Current expenditure	77.1	42.6	55.2%
Capital expenditure	44.5	15.5	34.8%
<b>Health</b>			
Current expenditure	26.4	6.8	25.7%
Capital expenditure	6.8	2.0	30.0%
<b>Family benefits</b>			
Current expenditure	67.5	26.7	39.5%
<b>Total</b>	<b>222.4</b>	<b>93.6</b>	<b>19.6</b>
Sources: Gabonese authorities; and World Bank staff.	4.5	4.7	
	0.2	0.0	
<b>Budget for the indigent</b>	<b>1.6</b>	<b>0.0</b>	
Access to social services	4.2	5.2	
GEF-- development of statistics	0.0	0.0	
<b>Total</b>	<b>102.5</b>	<b>89.7</b>	
Sources: Gabonese authorities; and World Bank staff.			

competitive bidding; and (ii) higher education transfers are related to scholarships and are expected to be executed by the end of the year.

- The authorities remain committed to continue protecting social spending. For that, they have set up a Social Expenditure Committee to ensure an effective monitoring of the program targets. However, they believe that both the coverage and the efficiency of these spending will need improvements. They noted that social spending, as defined under the EFF-supported program, is too narrow and does not accurately reflect their efforts to protect vulnerable groups. They are working with the World Bank to refine the definition of social spending to include family benefits and subsidies for kerosene, butane gas, and mass transportation that the poor uses the most (see text Table below). The authorities are also taking steps to improve the efficiency of this spending with a view to ultimately achieving better outcomes. They expect that the results of the recently-completed household survey will help better identify the most vulnerable population and design well-target subsidy schemes. At this stage, the authorities do not propose to change the agreed social spending targets under the EFF. Staff plan to revisit this issue with the authorities during the next review mission.

**12. *We note the statistical issues raised by the authorities on the coverage of the indicator on social spending. Could staff provide greater details on the impact of the suggested statistical review on the relevant indicative target performance?***

- The Social Expenditure Committee has made progress in collecting statistics and expects to make further progress next year.

**13. *On tapping new sources of revenue, could staff provide more information on the new tax on household waste, and whether this may create a burden for lower-income households?***

- The new tax on household waste is based on electricity bills (tax excluded), with a 7 percent rate. It aims to finance waste collection, street sweeping, and culverts cleaning services. It targets all electricity consumers and does not exclude lower-income households at this stage, with a view to avoiding the creation of a new tax exemption.

**14. *We take note that savings in the wage bill fell short of the budget target because the authorities have not yet reduced bonuses and salaries. How does staff assess the chances of meaningful reform in this area given public opposition?***

- A reduction of bonuses and salaries requires a negotiated settlement with trade unions and the implementation of specific laws approved by the Parliament. The

Government publicly announced its commitment to implement this reform, but discussions with all stakeholders need to be conducted. In the interest of taking a prudent approach, possible savings generated by reduction of bonuses and salaries were not included in the 2019 forecasts. Measures supporting wage bill savings in 2019 include (MEFP ¶9): the systematic retirement of civil servants who have reached the maximum retirement age; the termination of contracts with contractual civil servants over 60; the elimination of civil service job categories for specific jobs that are entirely outsourced to public departmental agencies; the formalization of organizational frameworks for the administrative services and public departmental agencies (structure, job, position, and job description) with assistance from the World Bank in the context of the Strategic Workforce Planning initiative (*Gestion Prévisionnelle des Emplois et des Compétences*—GPEC).

15. ***Could staff elaborate on the distributional effects of the elimination of tax exemptions, in particular the elimination of the “programme de lutte contre la vie chère”; what compensatory measures should be taken to make these measures sustainable for the poorest households?***
  - Several items among those included in the “programme de lutte contre la vie chère” did not specifically target the poorest households. While the first step is to eliminate the program, a second step should be to design new policies and measures targeted to support the poorest households. They may include well-targeted transfers or subsidies. The design of these measures needs to build on the results of the recently completed household survey.
16. ***We also note the authorities have set up a Social Expenditure Committee and are working to better target vulnerable groups, but we would like staff to indicate more precisely how this process might be taken into consideration under the program?***
  - Staff has already begun to consult with the newly created Social Expenditure Committee. Collaboration with this committee will be very important in monitoring social spending targets.
17. ***Could staff elaborate on how the structural benchmark (SB) of application for EITI membership contributes to the improvement of transparency?***
  - EITI defines global minimum standards for the transparency of payments from oil, gas, and mining companies—including public corporations—to governments. EITI membership requires a regular reporting by governments of their natural resource revenues, and by companies of the payments they make. In applying for EITI membership, the Gabonese authorities commit to publishing these data, and making

them subject to independent validation through a process that involves participation by civil society.

- 18. *Staff reports also highlight the precarious financial position of several public agencies and enterprises. We stress the need for strong measures to reduce contingent liabilities of these enterprises. Staff comments are welcome on the key measures related to this.***
- Several measures were already implemented under the Fund-supported program to strengthen financial oversight of public agencies: (i) publication of a new decree establishing harmonized statutes for public administrative institutions; (ii) creation of a single unit responsible for the financial oversight of public entities, including for gathering and coordinating financial information; and (iii) adoption of an action plan to upgrade financial information systems of public entities with a view to improve compliance with the new expenditure procedure. The next steps are the operationalization of the unit overseeing these entities, and the roll-out of the IT systems upgrade. This should help reduce and control fiscal risks.

## **Debt Management**

- 19. *Can staff confirm that all official arrears have been cleared? Also, given that external commercial arrears have only been reduced by a minor amount since the second review and that authorities have had difficulties to fulfil earlier commitments to clear arrears, how does staff assess the capability to clear all external commercial arrears by End 2018?***
- As indicated in EBS/11/118, Supplement 1, the authorities have provided confirmation (in the form of SWIFT payment instructions) that all official and officially guaranteed arrears have been cleared.
  - The authorities' good faith efforts to clear remaining commercial arrears have been ongoing, with meetings between creditors and high-level officials to resolve arrears taking place as recently as last week. Liquidity constraints have slowed the clearance process somewhat, but the disbursement of the bridge loan expected within the next week should enable quick clearance of the remaining stock.
- 20. *Could staff provide an update on the latest progress on prior actions, and external arrears clearance, since the Review papers were issued?***
- As noted in the EBS/18/118, Supplement 1, staff has verified the completion of the three prior actions, and the authorities provided confirmation that all official and

officially-guaranteed arrears accumulated since the completion of the second review have been cleared.

**21. *Would staff advise on their role, if any, in the [loans in arrears] strategy which is a proposed reset structural benchmark, since the target was missed in the previous two reviews?***

- Slow progress in delivering a framework for resolution was mainly due to capacity constraints. A structured program coordination committee has now been put in place and capacity strengthened. Staff will closely monitor progress with the new program coordinator, as well as the Ministries of Economy and Justice to ensure that an action plan covering NPL reduction through arrears repayment and structural reforms is timely developed to meet the reset structural benchmark.

**22. *Could staff comment on the latest progress on the independent audit of domestic arrears due to be completed April 2019?***

- Staff was informed during the mission for the third review that the independent auditor from PwC had started in line with an objective of completing the work by the deadline of April 2019. The auditors have opened an office to commence their meetings with private companies. The auditor has also issued press releases through major newspapers calling on private companies with domestic arrears to present their documents in line with the agreed terms of reference.

**23. *We welcome the cooperation with staff on the improvement of cash management, with a view to preventing the resurgence of arrears. Could staff elaborate on Gabon's medium-term ability to clear arrears?***

**24. *Could staff explain what are the risks of the authorities not adhering to the plan on domestic arrears clearance?***

**25. *We would like to ask staff whether the clearance of domestic arrears to the club de Libreville and others is implemented as planned. If not the case, what kind of corrective measures are taken?***

- Staff expects that the authorities will clear all externals arrears by the end of the year and will stay current on debt service going forward. Domestic arrears clearance is planned in the medium term. The authorities have already made strong progress to clear the exceptional Treasury float, and the remaining stock should be fully cleared in 2018. Payment of the Libreville Club creditors has continued in line with the agreed debt clearance plan. VAT arrears payment is programmed by end-2021. The establishment and progressive development of the escrow account for VAT credit

refunds has helped to improve the timeliness of these payments. Efforts to strengthen liquidity management, along with the implementation of the planned fiscal adjustment and the mobilization of adequate financing sources, will also support the clearance of the stock of VAT arrears.

26. ***We take note that there remain central government accounts opened with commercial banks and closure of them is set for SB for end-Mar 2019. We would like to know why the closure of these accounts were not set for PA and how to ensure closure of these account without delay.***
  - The measure was targeted for end-March 2019 to address the BEAC authorities' request for time to install sufficient capacity to manage these accounts, which may require additional personnel. It will also provide an opportunity to review the lessons learned from transferring the CDC accounts to the BEAC with a view to ensure minimal disruption and limited impact on the commercial banks.
27. ***We would like to know what corrective measures are taken to avoid the recurrence of end year fiscal slippage. We also would like to hear staff's evaluation on these measures. Could staff guarantee the effectiveness of these measures?***
  - Several corrective measures were implemented in 2018 to prevent end-year fiscal slippages. First, the publication of quarterly fiscal reports on a regular basis has helped monitor budget execution and identify potential deviations from the fiscal path. Second, the introduction of the automatic adjustment mechanism aims to control the fiscal path, with an expenditure adjustment equivalent to the underperformance of non-oil revenue collection in a given quarter. Finally, measures implemented in the second half of 2018 to strengthen financial oversight of public entities and to place a hold on planned acquisition of assets should avoid the end-year slippages observed in 2017.
28. ***Improved debt and cash liquidity management is essential to prevent the accumulation of domestic and external arrears. While encouraging the ongoing measures in this regard, we support the authorities' intention to appoint a long-term expert to support the implementation of planned measures. Could staff comment?***
29. ***Regarding the long-term expert who will be requested to help the authorities in improving cash management, could staff indicate whether this expert will be provided by the Fund or be outsourced?***
  - Recent IMF and World Bank TA on cash and debt management have made recommendations. A long-term expert, financed by the African Development Bank, is



expected to accompany the authorities in implementing these recommendations to strengthen the debt management unit and ensure regular updating of the monthly cash flow plan. This action will be accompanied by weekly meetings on cashflow management, which are expected to improve coordination and avoid accumulation of arrears.

## **Monetary and Exchange Rate Policies**

- 30. *Could staff indicate whether the real exchange rate is still overvalued by over 10 percent, and if so what measures have been used and proved effective in compensating for the loss in competitiveness by non-oil producers?***
- The External Sector Assessment prepared for the recent staff report on CEMAC (EBS/18/114) assessed the region's external position to be moderately weak than implied by fundamentals and desirable policy settings at end-2018. Staff prepared an External Sector Assessment for the second review under the Extended Arrangement (EBS/18/72) and determined an overvaluation of the real exchange rate of between 12 and 15 percent. The report noted that competitiveness should improve with the introduction of cost-effective cargo and bulk ports (completed in 2017), as well as the export potential of maturing agri-business projects. The report also emphasized the importance of strengthening the efficiency of public spending, particularly investment and infrastructure, to complement the FDI-led activities in the exporting sectors. The country team plans to update Gabon's external sector assessment for the upcoming Article IV consultation.

## **Financial Sector**

- 31. *While we see merit in resetting the structural benchmark for a strategy for the clearance of loans in arrears in the banking sector, to allow for collaboration between national and regional authorities, we seek assurance that this will not delay prompt action by the Gabonese authorities on domestic arrears clearance.***
- 32. *Given the growing NPLs and overdue loans, staff's comments are welcome on the slow progress of introducing a framework for resolution of NPLs.***
- Resetting the structural benchmark was necessary for developing a sound and well-coordinated action plan among involved ministries. This shall not affect the timeline by the Gabonese authorities to repay domestic arrears.
- 33. *We note that the NPL ratio is still rising. In this light, what is the cause of the increase? Are there any specific sectors that is more vulnerable than other sectors?***

34. *Regarding NPLs, we note that they keep increasing. Could staff shed light on the reasons behind this increase?*
- NPLs have increased from 9 percent at end-December 2017 to 10 percent at end-June 2018 mostly because of slow economic activity, fiscal slippages and accumulation of domestic arrears at end-2017 and early 2018. The transportation and communication sectors are more heavily affected. It should be noted that with 10 percent the NPL ratio in Gabon remains in line with the average of the CEMAC region. The clearance of domestic arrears should help reduce NPLs in the short run. In the long-term actions are needed to strengthen the legal and institutional frameworks.
35. *We welcome the authorities plan to convert part of its domestic debt into marketable securities. Could staff elaborate about which market participants will be the buyers, and traders, for these securities? Should it be expected to be a liquid and deep market for them?*
- The market participants are mainly commercial banks. At this early stage, it is not yet clear if the market will be liquid and deep.

### **Structural Reforms**

36. *Does staff consider that the recent capital investment in export-oriented sectors such as mineral processing (especially manganese), forestry, fisheries and agriculture (including palm oil and rubber) could enhance a change in Gabon's pattern of growth?*
- Over the last three decades, Gabon's overall growth performance has been weak, with an average annual rate of growth of 1.9 percent, implying an overall negative real per capita income growth. The outcome was largely driven by diminishing production from a mature oil sector. Sectors that gained prominence included commerce and services, which are largely non-tradable activities and focused on a small domestic market, reducing their growth potential. In recent years, Gabon has focused on leveraging its competitive advantages in abundant natural resources outside of oil. Substantial private investments in these sectors will help to diversify the export base, and initial outcomes indicate that the relatively labor-intensive agri-investment has boosted job creation and stemmed rural migration. However, there is a risk that these sectors will remain enclaved in special economic zones. Using this platform to catalyze growth across the economy therefore will require efforts to tackle barriers that are critical constraints—such as the poor business climate, weak governance, and limited human and physical capital.

## Program Issues

37. *We urge the authorities to take decisive measures to improve the execution of social spending and prevent the recurrence of new arrears' accumulation. We support the establishment of a dedicated committee designed to monitor the program and improve its implementation. Could staff elaborate more on the functions and autonomy of this committee (Social Expenditure Committee)?*
- The main social sector ministries are represented on the Social Expenditure Committee. The committee meets monthly to take stock of developments in social spending and inform the Ministry of Budget about difficulties in the execution of the budget for priority social spending.