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Staff Country Reports

GABON

2012 ARTICLE IV CONSULTATION

March 2013

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2012 Article IV consultation with Gabon, the following documents have been released and are included in this package:

- **Staff Report** for the 2012 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on December 11, 2012 with the officials of Gabon on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on January 30, 2013. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- **Informational Annex** prepared by the IMF.
- **Public Information Notice (PIN)** summarizing the views of the Executive Board as expressed during its February 13, 2013 discussion of the staff report that concluded the Article IV consultation.
- **Statement by the Executive Director** for Gabon.

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**International Monetary Fund
Washington, D.C.**

GABON

STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION

January 30, 2013

KEY ISSUES

Context: The authorities have launched an ambitious public investment and reform program to transform Gabon into a diversified emerging market economy by 2025. Although current economic conditions remain supportive, a critical issue ahead is how to use oil and mineral resources efficiently to support inclusive growth. While Gabon has the fourth highest level of income per capita in Sub-Saharan Africa, poverty and unemployment remain widespread, and the economy is heavily dependent on oil, which makes it vulnerable to volatile oil prices.

Outlook and risks: Economic activity has been robust and is expected to remain buoyed by the large public investment plan, while inflation remains moderate. Healthy oil prices have improved the current account balance whereas the nonoil primary fiscal deficit has widened considerably in recent years, driven by the increase in public investment. The foremost risk to the economy is a drop in oil and manganese prices, as these products represent about 90 percent of all merchandise exports and 45 percent of nominal GDP.

Sustaining public finances: Although Gabon has produced oil for decades, fiscal savings remain low making fiscal outcomes vulnerable to oil price volatility. In addition, the medium-term fiscal framework aims at scaling up investment expenditure to reflect Gabon's ambitious plans for becoming an emerging economy. The plan is well thought out but will be extremely vulnerable to exogenous price shocks in terms of meeting financing needs. Its success is also conditioned on a significant improvement in expenditure execution. A strong fiscal anchor and an astute choice and audit of investment projects would help secure the authorities' objectives of becoming an emerging market country.

Fostering inclusive growth and developing the financial sector: Coordinated policies are needed to make growth inclusive by reforming the business environment, promoting good governance, and improving the quality of public investment and spending on human development. Moreover, an effective employment policy will be necessary for matching labor supply and demand, including by improving vocational training. Improving access to finance and financial sector intermediation, while ensuring the continued stability of the financial sector by addressing issues of two small banks in financial difficulty, will also contribute to achieving high and more inclusive growth.

Approved By
**Anne-Marie Gulde-
 Wolf and
 Dhaneshwar Ghura**

Discussions were held in Libreville during November 28-December 11, 2012. The mission team comprised Messrs. Toujas-Bernaté (head), Maino, Thomas, and Ms. Tartari (all AFR). Messrs. Tsouk Ibounde (World Bank) and Nguema-Affane (Executive Director Office) participated in the meetings. The mission had constructive meetings with Mr. Luc Oyoubi, Minister of Economy, Employment, and Sustainable Development; Mrs. Christiane Rose Ossouka Raponda, Minister of Budget, Public Accounts, and Civil Service; Mr. Régis Immongault, Minister of Industry and Mines; and Members of the Finance Committee of the National Assembly. The mission also met with representatives of the private sector, civil society, and donors.

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GABON AT A CROSSROADS

1. Gabon's recent economic performance has been strong. Partly driven by a scaling-up of public investment, the non-oil economy has performed well, in particular mining, wood processing, and construction, helping to boost real GDP growth to 7 percent in 2010-11. Higher oil prices have also improved the current account balance and helped to maintain overall fiscal surpluses despite a 70 percent increase in total spending from 2009 to 2011. With expenditures driven by a tripling in capital expenditure, the non-oil fiscal primary deficit widened from 12 to 22 percent of non-oil GDP over the period.

2. While Gabon is in the upper-middle income countries category, its economic growth has not been inclusive, leaving one third of its population in poverty. Despite non-oil annual growth averaging about 5 percent during 2005-11 and an income per capita of more than \$10,000 in 2011, not enough jobs were created for a young and rapidly growing population, leading to an increase in unemployment to 20 percent overall, and an estimated 36 percent for the youth. The economy remains heavily dependent on oil—45 percent of GDP and 55 percent of budgetary resources in 2011—and weak institutions and governance have largely prevented transforming the oil wealth into better living conditions for all.

3. Gabon still faces many challenges to improve the climate for supporting higher non-oil growth and diversifying its economy. In addition to substantial gaps in infrastructures, one of the major impediments for sustaining higher non-oil growth is the weak business climate characterized by high levels of labor regulation, high wages, demand and supply labor skills mismatch, protracted delays in setting up new businesses, and a shallow financial sector.

4. Gabon looks to consolidate recent growth gains and transform its economy into an emerging market by 2025. Against the backdrop of high oil prices over the last decade which generated fiscal and current account surpluses and facilitated a sharp reduction in public external debt, President Ali Bongo announced the launching of an ambitious investment and reform plan after he was elected in 2009. The reform strategy ("Gabon Émergent") is to transform Gabon into an emerging economy by 2025 (Appendix I), with the strategy underpinned by a US\$ 12 billion public investment program over 7 years (equivalent to more than 150 percent of 2011 non-oil GDP). The strategy is focused on improving the level and standard of infrastructure in the country by building roads and ports and raising energy supply substantially, as well as addressing some of the weaknesses in the business climate (quality of the labor force and financial sector development).

5. Discussions covered similar ground to the 2010 Article IV consultations, but with some shift in emphasis. Since the last consultations, the authorities further developed and effectively launched their long-term development plan. The magnitude of the envisaged scaled-up investment plan is much larger than projected two years ago, with a longer period of implementation, making an improvement in investment execution capacity, as being sought by the authorities, even more important. At the same time, current budget spending could not be reined in as advised by staff, and contributed to a deteriorating fiscal position. Efforts to improve PFM have continued, with Fund

technical assistance, and preparation for reforms of the business environment and labor market regulation advanced, but with not much concrete progress yet.

RECENT DEVELOPMENTS AND CHALLENGES

A. A solid growth performance buoyed by expansionary fiscal policy...

6. Buoyed by a scaled-up investment plan, non-oil growth has been robust. The launch of the investment plan for infrastructure, preparations for the African Soccer Cup and the construction of special economic zones contributed to a sustained growth of real GDP in 2011 (7 percent), notwithstanding a fall in oil production. Real GDP is projected to rise by about 6 percent in 2012, with non-oil GDP growth making the major contribution at almost 9 percent based on construction and public works, transportation, and other services related to the high level of public investment. Economic activity in the oil sector rebounded slightly in 2012 but is projected to decline over the medium term owing to maturing oil fields, until new fields can be exploited in the longer term. Inflation remains under control (3.7 percent y-o-y through October 2012, and 3 percent annual average), notwithstanding a sharp increase in food prices (8.3 percent y-o-y through October), with the moderate aggregate figure partly reflecting the stability of administered prices and the recent decision to eliminate indirect taxes on certain basic products.

7. Based on high oil prices, the external current account surplus remains strong despite rapid import growth associated with the large public investment projects and the African Soccer Cup. Oil and manganese export revenues increased considerably during 2010–11, resulting in a current account surplus of over 14 percent of GDP in 2011, the highest since 2008. Exports of hydrocarbons and manganese are expected to falter slightly in 2012 owing to lower prices and logistical difficulties in getting manganese production to export markets. However, the current account surplus would remain strong at over 12 percent of GDP. Since 2009, imports have been rising by more than 20 percent per year on average but are expected to grow at a more subdued level in 2012 as the rapid public investment expansion reaches a plateau. Official reserves are projected to increase by slightly over US\$100 million during 2012, helping to raise the coverage of imports at the CEMAC level to nearly 5.7 months. The large disparity between the size of the current account surplus and the change in net foreign assets largely reflects the repatriation of oil funds by foreign companies.

8. The external stability analysis does not suggest an overvaluation of the real effective exchange rate. While the exchange rate assessment is conducted at the regional monetary union level, the analysis of external stability for Gabon compares the permanent annuity from oil wealth with the level of the medium term non-oil current account deficit. These two ratios are broadly similar to each other and therefore there is no fundamental pressure for domestic prices to adjust. However, if oil prices were to decline from current high levels, an adjustment would then be necessary (Box 1). Moreover, available indicators point to ample room to improve external competitiveness.

9. Since 2009, the fiscal stance has been expansionary on the back of higher capital spending, and Gabon would register a fiscal deficit in 2012 for the first time since 2000. With

oil revenues expanding by 80 percent between 2009–12, public expenditure increased by 70 percent over the same period. This increase reflects a combination of capital and current expenditures in the ratio of 2:1. The surge in capital expenditures reflects the substantial scaling up of public investment associated with the “Gabon Émergent” strategy and supplemented with the infrastructure requirements for hosting the Africa Soccer Cup. Indeed, capital spending has tripled since 2009, reaching 11.1 percent of GDP in 2012. Current expenditures have been boosted by an increase in the public wage bill of about 39 percent, mainly reflecting new security personnel, education and health workers and by transfers and subsidies ratcheting up to reach 2.3 percent of GDP in 2012, due to higher subsidies for petroleum products. At the same time, the ratio of non-oil revenue over non-oil GDP declined in 2012, partly reflecting increasing tax exemptions. As a result, the non-oil budget deficit is projected to peak at 26 percent of non-oil GDP in 2012, far above the estimate of a sustainable non-oil deficit position at about 12 percent of non-oil GDP.¹

10. Bank deposits and private credit grew rapidly in 2011-12. Deposits and credit were fuelled by rapid increases in the public wage bill, public investments and high expenditures associated with the African Soccer Cup. Broad money grew by 39 percent y-o-y through September 2012 while private sector credit grew by 45 percent over the same time period. Nevertheless, Gabonese banks remain highly liquid as they have been cautious in the past in offering credit leaving the level of private credit well below the average for SSA’s oil-exporters (private credit still is only 19 percent of non-oil GDP in 2012).

11. Except for two small public banks, the financial sector is sound. Compliance with regional prudential ratios is generally good, and non-performing loans remain low, except for two small public development banks where non-performing loans are very high (Table 4). These two banks were reorganized, with changes in their management as part of a restructuring plan which was developed in cooperation with the regional supervisory banking commission.

¹ This deficit level assumes that all of the oil wealth is used up. If the authorities wish to conserve oil wealth over time, a more ambitious deficit target is needed (see Annex II on the DSF).

B. ...but substantial social development challenges remain

12. There is an urgent need to improve human development outcomes. Despite having one of the highest per capita incomes in Sub-Saharan Africa, Gabon ranks below the average of upper-middle-income countries on human development indicators (Appendix V). This lackluster performance is explained by insufficient and inefficient government spending on health and education. Historically, health and education programs have not been sufficiently integrated into the budget and were generally underfunded at the same time as costs have been far higher than comparator countries.² For instance, building a classroom in Gabon costs almost five times the average cost among SSA countries in general.

13. Growth has been jobless with widespread unemployment affecting especially women and the youth in urban areas (Appendix V). Job creation has not been commensurate with economic growth. The national unemployment rate stands at 20 percent according to the ILO (28 percent when including discouraged workers). Employment has been largely sustained by the public sector, with a surge in public employment in recent years bringing its share in formal employment to 62 percent in 2010. Private sector formal employment is highest in forestry and services, but the informality of the labor market remains very high, with informal employment representing 47 percent of total employment.

14. The high level of unemployment reflects both a skills mismatch and a poor business environment. Less than 8 percent of students receive technical education, leading to a severe shortage of these types of workers in the labor market. Moreover, Gabon's business environment ranks poorly among upper middle-income countries according to the World Bank's 2012 *Doing Business Indicators* (47th out of 49 countries). Although ranking better than most CEMAC countries, it has fallen well behind the average SSA country. Areas where Gabon fared worst include starting a business, paying taxes, enforcing contracts, and resolving insolvency.

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² Gabon, *Public Expenditure Review—Better management of public finance to achieve Millennium Development Goals*—Report No. 62548-GA, March 2012.

Box 1. External Stability and Competitiveness

While the exchange rate assessment is done at the regional monetary union level, the external stability analysis for Gabon based on methodologies for resource rich countries does not suggest an overvaluation of the real effective exchange rate (REER). This assessment assumes that fiscal buffers are built up to insulate the economy from downside oil price risks. However, there is ample room to improve competitiveness, which is hindered by lack of basic infrastructure (e.g. electricity), complex regional trade regime, high wages, and challenging business climate.

External Stability Assessment. Over the past decade, Gabon's real effective exchange rate has remained very stable compared to other oil exporters. The analysis of the non-oil current account indicates that the underlying non-oil current account (projection in 2017) is comparable to the return on wealth assuming that the real value of wealth is maintained in perpetuity. Application of the Bems and Carvalho-Filho (BC) approach provides different assessments depending on the allocation rule. According to their model based on the permanent income principle, the current account norm would be a substantially larger surplus. Since the BC model includes the value of oil receipts in its assessment, it is very sensitive to the short-run profile of oil production and prices. The BC benchmark is also not the most appropriate in a situation of transitory scaled-up investment.

External Stability Assessment, 2017		
	Bems/Cavalho Constant real consumption	External Sustainability
Current Account Norm (in percent of GDP)	8.9	0.6
Underlying Current Account (in percent of GDP)	0.2	0.2
Current account elasticity	0.5	0.5
Overvaluation (percent)	17.5	1.0

Competitiveness: Although few resource exporters have performed better, Gabon's non oil competitiveness has not been particularly strong over the past decade. Non-oil exports have grown by only ½ percent of non-oil GDP per annum. Lack of basic infrastructure, labor skills mismatch resulting from a very low quality of education system and rigid labor regulation have led to high wages and low productivity. This is illustrated by the minimum wage in Gabon in PPP terms being double that of other countries in the region although lower than in middle income countries with limited resources.

In terms of doing business, Gabon's position has deteriorated relative to other countries in CEMAC and other SSA resource producers in the 2013 indicators which were mainly the result of a severe deterioration in registering property due to a transitory phase in the reform of the regulating authority. The deteriorating trend has continued since 2008 and Gabon is now ranked worse than the average oil-exporting country for most doing business indicators.

Box 1 (Continued). Gabon: Business Environment and Governance

Ibrahim Sustainable Economic Opportunity Indicators, 2010 (score/100)

WGI and GDP per capita (log PPP)

Changes in Governance indicators

(Percentile Rank)

Political and Democracy Stability Score

Sources: *Doing Business*, 2012; *Ibrahim Index of African Governance*, Mo Ibrahim Foundation 2011; World Bank, *Governance Indicators*, 2010, (average of control of corruption, government effectiveness, rule of law, regulatory quality, political stability and voice and accountability); Economist Intelligence Unit (EIU); and IMS staff calculations. SSA = Sub-Saharan Africa; LIC=Low-income country; HIC= High-income countries; UMIC= Upper-middle income country; LMIC= Low-middle-income country; OIL=Oil producers; RR= Resource-rich countries; =; WBI= World Bank Indicators.

Figure 1. Gabon: Selected Economic Indicators

Source: IMF and Gabonese Authorities

Figure 2. Gabon: Fiscal Indicators

Source: IMF and Gabonese Authorities

OUTLOOK AND RISKS

15. Economic activity is expected to remain robust in 2013, supported by mining, timber, and public investment. The agricultural sector, however, may continue to suffer from a lack of manual workers with available labor preferring to rely on large family support networks. Projected sustained non-oil growth over the medium term hinges on swift action to improve the business environment to generate new and sustainable sources of growth and less regulation in the labor market, as well as contribution from new Special Economic Zones (SEZ). On the other hand, oil production is projected to decline slightly each year as mature wells expire. Inflation is forecast to continue to be fairly stable, mainly owing to moderate import prices and stable administered prices which represent a large element of the CPI.

16. The current account surplus is projected to deteriorate over the medium term, ending in broad balance by 2017. This profile is dominated by the trajectory of the oil balance which is assumed to weaken by 11 percentage points over the next five years on account of lower oil production and export prices. The non-oil deficit is projected to remain fairly stable at about 18-20 percent of GDP. Foreign exchange reserves are assumed to rise gradually from current levels with the large Euro bond payment in 2017 assumed to be rolled over. Although external debt rises in coming years to partly finance the projected fiscal deficits, the debt to GDP ratio would remain within prudent benchmarks.

17. The budget is projected to register continuous small deficits over the next five years as the government ramps up its investment program. The deficits are projected to hover around 3 to 3½ percent of GDP and financed by domestic and external sources. Part of the reason why the overall deficit remains elevated despite a relative restraint in spending is that fiscal oil receipts are projected to decline by 13 percent of non-oil GDP over the medium term. As a corollary, the non-oil primary deficit improves by a corresponding magnitude over this period to a more sustainable level of 15 percent of non-oil GDP by the end of the forecast period, with the ratios of both current and capital expenditure to non-oil GDP declining from their peak in 2012-13.

18. Gabon is not immune to the prospect of a global stagnant economy and volatile commodity prices. The foremost risk to the economic outlook is a possible global slowdown stemming from the euro area crisis, which could lead to a prolonged decline in oil and manganese prices. As these commodities account for about 90 percent of total exports of goods and 45 percent of nominal GDP, this could have large negative effects on the fiscal and external balances as illustrated in an illustrative downside scenario (Appendix VII). While a comfortable level of external reserves at the regional monetary union level would help to absorb such a shock on the external side, the authorities may choose to borrow more from regional banks and on international capital markets before being forced to reduce spending and postpone investment plans.

19. Other significant risks relate to the efficiency and prospective rate of return on public investment and the implementation of reforms. The success of the authorities' strategy to transform Gabon into an emerging economy heavily depends on a positive rate of return on public

investment and effective reforms to unlock the potential for private sector development and economic diversification. However, all of these may fall short of expectations and fail to raise the medium-term non-oil growth rate, as projected under the baseline, and thereby stunting job creation and keeping the poverty level high.

POLICY DISCUSSIONS

20. Against the background of the government’s plan to transform Gabon into an emerging economy by 2025, policy discussions focused on two main themes: (i) ensuring fiscal sustainability and external competitiveness over the next five years against the backdrop of declining oil production, and (ii) achieving high and more inclusive growth, including through deepening the financial sector while preserving financial stability.

A. Ensuring Fiscal Sustainability and External Competitiveness

Background and staff’s views

21. Fiscal policy over the next five years is one of the main vehicles for setting out and realizing the objectives of the government’s plan for making Gabon an emerging economy by 2025. For it to be successful, it should be set in a medium-term sustainable framework that takes explicit account of the volatility of oil receipts. In this context, one of the first priorities is to ensure that the government’s investment plans are well executed and succeed in plugging Gabon’s significant infrastructure deficit in terms of transportation, energy, and housing. However, the authorities’ intention to execute the investment plan swiftly risks generating a procyclical fiscal stance in the event that oil prices decline from their current high levels, especially given very low fiscal buffers at present.

22. The high level of public investment planned by the authorities must be consistent with the nation’s absorptive capacity and generate a positive rate of return. Infrastructure services are clearly inadequate in Gabon and efforts to scale-up investment are necessary. However, the massive increase in public investment that the authorities have implemented over the past three years risks leading to some waste and loss of effectiveness. To their credit, the authorities have put in place measures to strengthen the preparation and execution of investment projects, including a public procurement code, a mandate to finalize technical studies underpinning specific investment projects before budgetary outlays are made, and ensuring that budgetary payments are made only after proof that the associated task has been completed.

23. Staff supported the authorities’ efforts to address weaknesses in investment execution capacity. Administrative capacity in public investment in Gabon has been extremely weak in comparison with the SSA average, especially at the appraisal stage (Figure). To

overcome these weaknesses, the authorities have set up a national agency for major public works (ANGT in French) with the technical support of Bechtel, an American engineering corporation with a long established track record in administering large investment projects. However, the speed at which new public investments are being rolled out may compromise efficient and transparent work practices. It will also be vital that the ANGT supports the various sectoral Ministries in executing their investments so that some know-how and technology transfer can take place between the ANGT and the various Ministries. Without this knowledge transfer, the authorities may revert to their earlier less efficient public investment methods once the Bechtel contract is up.

24. The authorities have built up very limited fiscal buffers to address downside risks stemming from possible lower oil prices. The government deposits with the BEAC (excluding cash holdings), which represent fiscal savings from oil wealth were at 250 billion CFA (or 15 percent of annual oil revenue) at end-October 2012. The fund for future generations, which encompasses these fiscal savings, has recently been renamed as *Fonds Souverain de la République Gabonaise* (FSRG) and an agency named *Fonds Gabonais d'Investissement Stratégique* (FGIS) has been set up with the task of identifying long term investments for these funds, subject to the requirements of CEMAC. The authorities intend to place about 10 percent of oil revenues annually into this fund but the likelihood of this happening is low given staff projection of low but continuous fiscal deficits over the next few years. Moreover, with a 15 percent decline in oil prices relative to the baseline, these deposits could be wiped out within a year when assuming unchanged fiscal expenditures and borrowing.

25. As an alternative to the authorities' preference for spending all of its oil resources as they arise, staff recommended to start building up a reasonable fiscal buffer immediately to withstand future possible negative oil price shocks. To that effect, the government could consider introducing new budgetary rules that set a budgetary oil reference price and cap accordingly annual expenditures. This reference price could be set as the moving average of a period of historical and future oil prices. Under an alternative price setting mechanism, a value-at-risk analysis suggests that a buffer of about 700-800 billion FCFA would be sufficient to maintain projected budgetary envelopes without exhausting the fund in the event of a large negative shock to oil prices (Appendix II).

26. Current expenditures, especially the wage bill and fuel price subsidies, have risen sharply in recent years and need to be better restrained. Staff was of the view that public employment should not be the main source of employment and that high fuel subsidies benefit higher income people and the industrial sector rather than the more vulnerable segments of the population. The authorities aim at containing the wage bill and transfers and subsidies in the 2013 budget by limiting public sector hiring and increasing, if necessary, some oil products prices. These expenditures can indeed be restrained in various ways:

- *Controlling the wage bill.* The government's objective of reducing the number of public sector

employees must be followed with vigor and determination.³ The authorities are implementing a multi-pronged approach that includes a reevaluation of the public sector roster, staff reductions through scheduled and voluntary early retirement, and the establishment of decentralized management centers. If successful, these measures would allow an expansion of employment in priority education and health sectors. Measures to reduce the public sector workforce should also be accompanied by a reform of public sector wage entitlements. Public sector pay in Gabon is high by international standards and is a strong benchmark for wage agreements in the rest of the economy given the large size of the public sector.

- *Reducing oil subsidies.* Domestic prices of gasoline and diesel are almost 30 percent below international prices with most of the subsidy going to consumers of diesel for whom 75 percent are businesses (Appendix III). The authorities are considering various options for reform, including selective price adjustments for different categories of consumers (households and businesses in various sectors). Staff sees merit in a uniform increase in oil products prices, introduced gradually if necessary, while the current social transfers system is strengthened with savings from the withdrawal of the subsidy. Irrespective of the reform method chosen, a clear public communication strategy is needed to garner the necessary public support.

27. On the revenue side, the recent proliferation of tax incentives and exemptions need to be reversed. The authorities recently eliminated import taxes on a wide range of items in response to inflationary pressure on these products and have also established generous tax incentives for companies setting themselves up in the new SEZs. These companies stand to benefit from zero tax payments for 10 years and reduced tax payments for five subsequent years. In this context, staff encouraged the authorities to initiate a detailed review of the extent of tax expenditures based on data recently collected by the World Bank and to look for ways to expand the tax base. This action is all the more urgent in light of the recent decline in the ratio of oil budgetary revenues to oil output as oil companies increased their capital expenditures to extract oil from ageing wells.

Figure 3. Gabon. Non-Resource Fiscal Revenues

³ The ratio of public employment to the working age population in Gabon is 10.8 percent compared to a median of 8.6 percent for middle-income countries.

28. Efforts to improve the management and transparency of public finance must be carried out vigorously. The authorities initiated an ambitious reform of public finances with the objective of introducing program budgeting by 2015 (Appendix IV). With the support of AFRITAC, preparations are well advanced, although the timetable remains ambitious and the success of the project will require serious enhancements in training and equipment in the various Ministries. When completed, the reform should help improve budgetary execution considerably and address some of the concerns recently noted in the World Bank's public expenditure review. Staff also recommended improving the transparency of public sector finances by publishing reports ex-post of budgetary execution and by providing much more details on public finances to the general public. Given the size of the public investment plans going forward, the execution of all large public investment projects should be audited by an internationally recognized company and made public. Similar efforts should be made to reconcile differences between company and government accounts regarding the transfer of oil revenues as highlighted in the most recent EITI report on Gabon.

Authorities' views

29. The authorities see merit in spending oil revenues on productive investment expenditures rather than depositing large funds in the BEAC earning little interest. They expect infrastructure investments to help stimulate the private sector and lead to an increase in non-oil GDP growth over the medium term. Moreover, in the event of a sharp decline in oil prices, the authorities were convinced that they could slow down the rate of investment without disrupting ongoing investment activities. They also recognized that they would not be able to maintain such high levels of investment expenditures indefinitely and that over time the public investment ratio should decline to below 10 percent of GDP, consistent with the permanent level of oil revenues based on current prices.

30. The authorities are convinced that medium term fiscal sustainability can be achieved through its proposed wage and employment reforms, and rationalizing expenditures on goods and services as well as transfers and subsidies. They are determined to follow through with the rationalization of the public sector and are seriously considering various options to reduce the subsidy associated with the oil price mechanism. Moreover, they are courting foreign interest to help develop their oil refining industry and reduce budget transfers to this industry.

31. The authorities will continue to abide by the CEMAC fiscal convergence criteria and argued that the large public investment program can be financed from their own funds.⁴

Based on the WEO oil price outlook discussed during the mission, the authorities were comfortable that they would be able to finance their budgetary expenditures with own revenues. Moreover, if oil prices were to fall from their current high levels, the authorities believed that they would be able to tap into international markets and borrow to finance the shortfall, while maintaining public debt below the implicit ceiling of 35 percent of GDP that the government has set for itself based on

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⁴ The CEMAC fiscal convergence criteria include a zero floor on the basic fiscal balance, calculated as the difference between total revenue and total expenditure excluding foreign financed capital spending, and a ceiling on public debt of 70 percent of GDP.

cross-country studies.⁵ The authorities also expressed a preference for continuing to use the WEO forecast price for the preparation of the budget for the time being, but were open to explore other options in the future.

32. The authorities recognize that tax incentives would lead to a loss of revenue but argued that these measures were essential to attract foreign companies. Given the lack of skilled labor in Gabon and the current poor quality of infrastructure, they argued that the SEZs are a sine qua non condition for getting foreign companies to set up in the country. Moreover, exemptions related to the SEZ and to the exploitation of natural resources would be phased out over time, and the authorities were convinced that the SEZ would boost growth and eventually non-resource fiscal revenue. They also confirmed that a fundamental review of tax incentives would be undertaken with a view to broadening the tax base.

33. The authorities are confident that their program of public finance reform will enhance the quality and efficiency of public spending. In particular, in line with the new organic finance law, the budget to be formulated in the form of program objectives and results-based oriented is expected to be better aligned with national priorities specified by the strategic development plan.

B. Achieving higher and more inclusive growth

Background and staff's views

34. The development of the private sector is essential in order to support a diversified economic growth that is rich in employment opportunities. Public expenditures cannot substitute for the private sector and support a sustainable high level of economic growth over the medium term. Indeed, the role of the private sector is all the more important given the prospective decline in oil production and the inability of this sector to generate many jobs given its capital intensity. In this context, it is essential that the authorities take steps to improve the business climate, strengthen the quality of the labor force through intensified and more focused training, and develop the financial sector. These measures would help foster the development of the non-oil export sector which is currently very small, and contribute to sustaining Gabon's reserve coverage in the face of dwindling oil receipts.

35. The diversification of the economy remains very low with limited profitable opportunities owing to high wage levels and poor infrastructure. Wage levels are very high in Gabon. A cross-country comparison of minimum wages shows that Gabon has one of the highest minimum wages among 29 sub-Saharan African

	CEMAC	SSA	Other Developing Countries
Power tariffs (US\$ per kilowatt-hour)	0.20	0.23	0.08
Port container handling charges (US\$ per TEU)	210	210	115
Road freight tariffs (US\$ per ton-kilometer)	0.13	0.09	0.03
Mobile telephony (US\$ per basket per month)	15.1	11.8	9.9

Note: Figures represent mid-point of range across regions.

Source: World Bank.

⁵ The authorities have run simulations using the IMF debt sustainability template and finds that even under a scenario in which output declines for two successive years, the buildup of debt required to finance sustained high imports does not breach the threshold of 35 percent of GDP.

countries.⁶ Infrastructure costs are also very high in Gabon and infrastructure capital is low, prompting the government to embark on an ambitious investment program. To support the development of the private sector, the authorities are considering the option of public-private partnerships (PPP), with a new law under preparation.

36. The authorities must take immediate action to strengthen the business climate. The private sector in Gabon remains relatively narrow and fragmented, especially at the level of small and medium sized businesses. Many constraints still weigh on the business climate, some of which are highlighted in the World Bank's Doing Business Survey. While the government's large investment program is addressing the major infrastructure constraints in transportation and domestic energy provision, cumbersome procedures for establishing a business and getting land titles remain. Business surveys also underline the poor quality of the labor force, the unwillingness to take manual labor opportunities, and access to bank credit as severe constraints to the healthy development of the private sector. Without improvements in these areas, the objectives inscribed in the plans to make Gabon a diversified emerging economy will not be achieved. In addition, the authorities should enhance the AML/CFT framework by implementing the recommendations set out in the AML/CFT assessment conducted in May 2012 by the World Bank and the GABAC (Groupe d'Action contre le Blanchiment en Afrique Centrale), in order to support the fight against corruption and improve the investment climate.

37. Staff encouraged the authorities to build on recent efforts to facilitate private investment. They have set up a one-stop shop for obtaining land permits and have reduced the length of time that it takes to set up a business from 56 days to 8 days. The authorities also identified, with the assistance of IFC staff, a number of action plans to improve the business environment, including for business creation, improved procedures for construction permits and access to property, and improved management of import and export activities.

38. A diversified economy combined with an effective employment policy should help Gabon address the challenge of lowering the high unemployment rate. A policy needs to be put in place that matches the supply of Gabonese labor with the demands of the labor market. The supply of labor needs to be competitive in terms of its cost, both regarding the base wage and its social insurance premiums. Given the high level of the base wage in Gabon, the authorities may wish to consider finding alternative ways of financing its social protection system less costly for businesses. The education system also needs reforming to better match the demands of the labor market and restrictive labor laws could be eased to facilitate hiring. These measures implemented in combination will help the numerous young Gabonese entering the labor market over the next decade to access durable employment opportunities. Until these measures are put in place, however, the immediate demands in certain sectors (agriculture, forestry, retail trade) for large amounts of manual labor to fulfill the government's ambitious plans risk being constrained. To

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⁶ Based on data from ILO, UNDP, and national government documents. Gabon's minimum wage of US\$182 per month in PPP terms is exceeded only by South Africa, DRC, Lesotho and Kenya in the sample.

relieve this potential obstacle, staff suggested providing companies greater flexibility to employ foreign workers.

Authorities' views

39. The authorities recognize the deficiencies that have led to a fairly undeveloped private sector and are making changes to address this situation. They plan to build on recent measures to improve the business environment, including by enacting a few action plans identified with IFC staff.

40. The authorities recognize the large mismatch that exists between skills needed by businesses and those that the labor force possesses. To address this issue, they have recently set up specialized schools to train technocrats in mining and in oil exploration and analysis. To reduce likely shortages of manual labor, they have signed agreements with a number of companies intending to set up in the new SEZs that allow the hiring of foreign workers beyond the current rule limiting foreign workers to less than 10 percent of the workforce.

41. The authorities aim at creating room for increased hiring in priority sectors. They recognize that improvements in health and education are essential to alleviating poverty and to improving labor productivity and, in this context, the 2013 budget envisages hiring new staff for these sectors and building new classrooms and several clinics.

C. Developing a deeper financial sector

Background and staff's views

42. Financial intermediation and market depth are limited in Gabon and need to be expanded to allow the sector to play its role in the financing of Gabon's development. Banks, even though highly liquid, are extremely prudent in providing credit. Although credit growth has been very strong over the past year, financial intermediation remains weak (Box 2). Very few small and medium sized enterprises have access to bank financing for investment. Banks cite the absence of credit bureaus and lack of company information as reasons for not providing credit, and argue that they can only offer high interest rates to SMEs because of the difficulties in evaluating risk. To remedy this situation, the authorities must develop, in coordination with the regional supervisory authority, a strategy for the financial sector that addresses risks and vulnerabilities. Staff welcomed recent efforts to enhance the institutional environment, including by: (i) improving the operations of land and commercial registries and strengthening creditor rights enforcement; (ii) improving the process of getting credit by broadening the range of assets that can be used as collateral and are introducing out-of-court enforcement; and (iii) streamlining procedures for the realization of guarantees to obtain loans and creating a centralization system that provides commercial banks access to companies' balance sheets.

43. The authorities must continue to implement restructuring plans for the two small public banks in financial difficulty. The two development banks have high levels of non-performing loans and have been registering losses. Based on recommendations by the regional supervisory banking commission, the authorities developed restructuring plans to modernize banks' operations, enhance credit control, reduce operating costs, improve the governance structure, and recapitalize the banks. Changes in the management of the banks and of the governance structure,

as well as measures to reduce operating costs were implemented in 2012 as part of the restructuring plans. Additional budget resources needed to cover past losses and recapitalize these two banks were estimated at about CFAF 10 billion (0.1 percent of GDP). Staff emphasized the need to take appropriate actions to ensure future viability of these banks, including through enhanced governance and reduced operating costs, before providing additional financial support.

Authorities' views

44. The authorities will continue to pursue a number of measures to develop the financial sector. In addition to recent efforts to improve the institutional environment, efforts are also underway to facilitate SME access to financial services. The authorities intend to subscribe to the capital of the African Guarantee and Economic Co-operation Fund, which guarantees bank loans to SMEs. Work is ongoing to finalize the microfinance development strategy to expand access to credit (while limiting operational and security risks) and financing instruments are being streamlined through restructuring several public agencies involved in SME and housing financing. The authorities confirmed their commitment to strengthen the two small public banks and ensure their viability in the future.

D. Other Issues

45. Data quality. Statistical Information needs to be improved considerably to provide a stronger basis for making macroeconomic policy judgments. Data provision has some shortcomings, with published balance of payments and output statistics dating back to 2006; the timeliness of fiscal, monetary, and financial sector data could be improved; and high-frequency indicators for economic activity are lacking (Informational Annex, Supplement II). The authorities are encouraged to develop a statistical action plan and the IMF and other donors stand ready to provide technical assistance in this area. This will help the authorities to better monitor progress under their medium term development plan.

46. Trade policy. Consistent with its free market trade policy, the government plans to streamline the work of several government agencies involved in export and investment promotion. A competition authority is shortly to become operational that will ensure that competition is not hampered by illicit price fixing arrangements, especially in the retail market.

47. Noncompliance with Article VIII. In 2008, the authorities introduced a tax on wire transfers, which is not consistent with the requirements under Article VIII, Section 2(a). They have not indicated any intention to reverse this tax arguing that it is consistent with proposals currently being discussed in the international arena on taxing capital flows. Moreover, since the funds contribute to financing the health insurance fund, reforming this tax is politically sensitive.

Box 2. Structure and Recent Performance of the Financial Sector

The financial sector in Gabon is among the least developed in the SSA region. The financial sector is dominated by universal banks (10 banks in 2012), many of which are foreign or privately owned subsidiaries of foreign institutions. Microfinance institutions (10 percent of credit to SMEs), pension funds and insurance companies play a limited role in providing financial services. Banking sector assets account for 21 percent of GDP, and loans are highly concentrated in a few productive sectors such as oil, telecoms and real estate. Financial depth (ratio of private credit to GDP) remains very low at about 11 percent of the GDP (19 percent of non-oil GDP).

Financial access remains constrained by several factors. The main barriers limiting credit supply include insufficient investor protection, weak contract enforcement; low project bankability (e.g., limited managerial capacity to create financial statements), lack of property ownership and bottlenecks in land registration. Moreover, the payment system is underdeveloped, with high registration fees for businesses. Nevertheless, the share of population having a bank account increased from 16 percent in 2010 to 21 percent in 2011. The recent establishment of the postal bank, opening of new banks, introduction of Mobile Money, improved infrastructures, and measures to facilitate the use of collateral are expected to further enhance access to financial services.

Against this background, growth in credit to the private sector accelerated strongly in 2012. The robust credit growth at about 44 percent y-o-y as through October 2012 mainly mirrored increasing demand in the construction, transportation, telecoms and oil sectors, in the context of scaled-up public investment. Ample liquidity, improved confidence in the strength of the economy and increased competition among banks boosted the credit supply, including for consumer lending. Despite the recent rapid growth in credit, the loan-to-deposit ratio remains below 65 percent and banks are still very liquid. Banks would welcome larger issuance of T-bills to diversify their portfolio and deepen the financial market.

The banking system appears to be sound, and exposure to Euro area distress is limited. Banks are overall in good financial health, adequately capitalized, liquid and profitable. The ratio of nonperforming loans to total loans is low at about 4.4 percent. However, two development banks (representing less than 10 percent of total loans and less than 3 percent of total deposits) have high levels of non-performing loans and are registering losses. Based on recommendations by the regional supervisory banking commission (COBAC), the authorities have introduced changes in the structure and the governance of those banks in the context of restructuring plans.

Compliance by Gabonese banks with the CEMAC prudential ratios is broadly satisfactory, although the limit on lending to shareholders is routinely violated. Mitigating risks associated with potentially fast expanding banking activity would require strengthening of staffing and oversight capability of the COBAC.

Figure 4. Financial Indicators

Source: IFS; and Financial Access Survey, 2010. Gabonese Authorities and IMF Staff estimations.

Note: Frontier Markets include Botswana, Ghana, Nigeria, Kenya, Mozambique, Tanzania, Uganda and Zambia.

STAFF APPRAISAL

48. Economic growth has been robust under favorable conditions, but has not been inclusive enough. Against the backdrop of high oil prices, non-oil growth has been buoyed by a substantial increase in public investment in recent years, and the external balance has improved. However, while having become a middle-income country thanks to decades of oil production, a third of Gabon's population still lives in poverty and unemployment is high, in particular for the youth. A critical issue ahead is how to use oil and mineral resources as efficiently as possible to support inclusive growth and address social and economic development challenges.

49. The medium-term outlook is favorable, but hinges on reforms and is not immune to significant downside risks. The strategic development plan launched by the authorities to transform Gabon into a diversified emerging economy is broadly appropriate, but the key lies in implementation. Provided that public investment will have a high return and measures to improve the business climate are successfully implemented, the great potential for private sector development and job creation could be fully exploited. However, with an economy still highly dependent on oil and very small policy buffers, the economic outlook is subject to significant downside risks stemming from a large and prolonged decline in oil and manganese prices.

50. Building larger fiscal buffers, backed by a more prudent fiscal stance, will be critical to withstand possible negative oil price shocks. The substantial expansion in recent years of both current and capital expenditures has prevented the build-up of sufficient buffers during a period of high oil prices. A fiscal stance grounded in a simple fiscal oil price rule to help anchor spending and saving objectives against volatile oil prices would be more prudent. It would need to be supported by policies and reforms to restrain the wage bill growth and reduce subsidies for oil products, as well as expanding the tax base for non-oil revenues, in order to make enough room for productive spending, including for priority sectors of education and health. Over the longer term, after proper infrastructure is in place, further fiscal consolidation should take place to ensure fiscal sustainability over the oil production horizon.

51. Achieving a high return on public investment will be key to reach the development plan's objectives. A scaling-up of public investment is necessary to improve currently weak infrastructure services. However, it should be consistent with the nation's absorptive capacity and achieve a positive rate of return. The recent massive and rapid increase in public investment, which might be excessive, risks leading to some waste and loss of effectiveness. Staff urges the authorities to pursue their efforts to address weaknesses in investment execution capacity and ensure good quality of spending, including by strengthening the selection, preparation and execution of investment projects with the assistance of international experts. Knowledge transfer in this area from the experts to the administration will be important for progress not to be reversed in the future.

52. Efforts under way to improve the management and transparency of public finance must be carried out vigorously. Good governance and accountability are critical for ensuring the efficient use of oil resources. The ambition of PFM reforms to comply with regional guidelines

before the set deadline is rightly placed, but their success will require serious enhancements in training and tools. More details on public finances should be provided to the general public, including on budget execution. Additional efforts should also be made to ensure transparency and accountability in the management of oil wealth, as highlighted in the most recent EITI report on Gabon.

53. The external stability analysis does not suggest an overvaluation of the real effective exchange rate. However, external stability would be reinforced by a more prudent medium-term fiscal stance. Moreover, the relatively weak external performance of the non-oil sector points to evidence that structural factors are a significant constraint on external competitiveness.

54. Comprehensive policies are needed to support a diversified and more inclusive economic growth that is rich in employment opportunities. Immediate actions should be taken to strengthen the business climate. Without improvement in this area, current constraints to private sector development will prevent sustaining high growth in the medium term. Employment policy measures will also be necessary for better matching labor supply and demand and spurring job creation, including by improving vocational training.

55. Financial intermediation and market depth need to be expanded, while continuing to preserve financial sector stability, to allow the sector to play its role in the financing of development. To that effect, a strategy should be developed to further improve the institutional environment for credit and enhance access to mortgage credit and microfinance. To preserve the stability of the sector, implementation of the restructuring plans for the two small public banks in financial difficulty should be completed as soon as possible with a view to ensure the future viability of these banks after appropriate financial support from the state is provided.

56. The data provided to the Fund are broadly adequate for surveillance. However, improvements are needed in balance of payments statistics and timeliness of fiscal and financial sector data.

57. Gabon maintains a tax on wire transfers, which is inconsistent with its obligations under Article VIII. Staff does not recommend approval.

58. It is expected that the next Article IV consultation will be held on the standard 12-month cycle.

Gabon: Risk Assessment Matrix

Nature/Source of Main Threats	Likelihood of Realization in the Next Three Years	Expected Impact on Economy if Risk is Realized
A substantial decline in hydrocarbon prices stemming from a sustained global slowdown.	• Staff assessment: Medium • Intensification of euro area crisis and spillovers from Europe and/or unresolved U.S. fiscal issues could lead to a marked and, perhaps, sustained softening of global growth, which in turn would lead to sustained lower hydrocarbon prices.	• Staff assessment: High • Gabon remains very dependent on oil exports and revenues (oil accounts for 87 percent of total exports and 55-60 percent of total revenue). • Although, international reserves at BEAC provide buffers, the low level of fiscal savings and still limited capacity to borrow on capital markets would likely force a contraction in public spending, in particular investment, with negative impact on non-oil growth. There is also a risk of significant oil-related FDI reductions if lower oil prices materialized, with potential long-term negative effect on oil production.
Overly expansionary fiscal policy.	• Staff assessment: Medium to High • Capital spending has historically been volatile, undisciplined, and pro-cyclical. • Since 2009, the government has failed to increase fiscal buffers despite their vast hydrocarbon revenues.	• Staff assessment: Medium to High • A loose and inefficient fiscal policy would raise inflation and undermine competitiveness, thereby inhibiting non-oil growth and negatively impacting the poor. • Further scaling-up of capital spending could further strain the absorptive and implementation capacity, with impact on project selection and scope for corruption.
Widening inequalities in income and job opportunities.	• Staff assessment: Medium • Investment and growth are hampered by a poor business environment. • Non-hydrocarbon sectors remain rudimentary and offer few job opportunities.	• Staff assessment: Medium • Continued social inequalities could fuel social tensions. There is an urgent need to improve human development outcomes and enhance job opportunities. • Larger resources need to be allocated to health and education.

Table 1. Gabon: Selected Economic Indicators, 2008–17

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
				Est.			Projections			
(Annual percent change, unless otherwise indicated)										
Real sector										
GDP at constant prices	1.0	-2.9	6.7	7.0	6.1	5.9	6.8	6.9	7.1	7.5
Oil	-0.9	-3.7	5.9	-2.4	0.8	0.3	-0.6	-0.7	-0.6	-0.6
Non-oil	2.1	-2.4	7.2	12.1	8.7	8.3	9.8	9.7	9.7	9.9
GDP deflator	16.2	-16.6	18.3	15.1	1.2	2.4	-2.1	-1.7	-1.0	-0.6
Oil	15.4	-33.5	39.3	35.9	0.3	3.6	-4.4	-3.5	-2.8	-2.2
Consumer prices										
Yearly average	5.3	1.9	1.4	1.3	3.0	3.0	3.0	3.0	3.0	3.0
End of period	5.6	0.9	0.7	2.3	3.1	3.0	3.0	3.0	3.0	3.0
External sector										
Exports, f.o.b.	37.2	-39.1	26.0	40.2	-5.1	5.8	-4.0	-3.2	-1.0	0.4
Imports, f.o.b.	8.1	2.8	18.1	24.3	3.6	8.8	2.1	1.2	3.6	7.9
Terms of trade (deterioration= -)	17.6	-26.8	16.7	24.9	-8.2	2.6	-2.3	-2.4	-1.8	-3.2
Central government finance										
Total revenue	27.0	-18.9	8.9	34.6	3.1	0.0	3.1	3.2	4.0	4.0
Oil revenue	42.0	-38.5	17.8	39.2	6.4	-3.5	-4.3	-3.7	-4.6	-2.6
Total expenditure	13.7	-1.4	26.6	33.3	17.2	10.9	2.8	4.0	4.4	6.1
(Percent of GDP, unless otherwise indicated)										
Non-oil primary balance (in non-oil GDP)	-12.5	-11.7	-18.0	-22.1	-26.4	-25.2	-22.2	-19.8	-17.1	-15.4
Overall balance (commitment basis)	10.5	5.9	1.8	2.3	-1.0	-2.9	-3.2	-3.3	-3.2	-3.6
Net domestic financing	7.4	-1.4	-2.4	-2.5	2.9	2.7	1.6	1.9	2.1	3.0
Net external financing	-23.8	-2.2	0.6	1.9	-0.6	2.2	3.3	3.1	2.4	2.0
External public debt (including to the Fund)	13.9	17.8	15.8	14.8	15.5	15.0	16.4	17.7	18.4	19.4
Total public debt (Percent of GDP)	16.0	23.9	20.4	18.2	18.8	20.6	22.7	24.8	25.9	28.4
(Percent Change, unless otherwise indicated)										
Money and credit										
Credit to the economy	6.0	-7.9	1.9	42.0	24.4	26.0	...	...	...	...
Broad money	8.8	2.2	19.2	26.5	12.5	11.6	...	...	...	...
Velocity ratio of NOGDP over broad money	3.3	3.0	3.1	2.8	2.8	2.8	...	...	...	...
(Percent of GDP, unless otherwise indicated)										
Gross national savings	47.7	38.4	38.9	45.0	44.1	42.7	40.1	38.0	36.4	34.4
Gross fixed investment	22.0	27.1	30.0	30.8	31.7	32.4	33.3	33.6	33.8	34.2
Current account balance	23.3	7.5	8.9	14.1	12.4	10.4	6.9	4.5	2.7	0.2
(CFA francs billion, unless otherwise indicated)										
Memorandum items										
Nominal GDP	7,045	5,702	7,201	8,867	9,527	10,327	10,805	11,350	12,036	12,856
Nominal non-oil GDP	3,731	3,475	4,238	4,936	5,553	6,200	6,882	7,592	8,406	9,328
National Currency per U.S. Dollar (Average)	448	471	531	534	536	536	536	536	536	536
Oil Prices (WEO, U.S. Dollar/BBL)	97	62	79	104	106	105	101	96	93	94

Sources: Gabonese authorities and IMF staff estimates and projections.

Table 2a. Gabon: Central Government Accounts, 2008–17 (Billion of CFA francs)										
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	Est. Projections									
Total revenue and grants	2,078	1,685	1,834	2,469	2,546	2,547	2,625	2,708	2,815	2,927
Revenue	2,078	1,685	1,834	2,469	2,546	2,547	2,625	2,708	2,815	2,927
Oil revenue	1,362	837	986	1,372	1,460	1,408	1,347	1,297	1,238	1,205
Non-oil revenue	716	848	848	1,097	1,086	1,139	1,278	1,411	1,577	1,722
Tax revenue	679	798	803	1,046	1,068	1,073	1,207	1,331	1,484	1,622
Taxes on income, profits, and capital gains	234	325	235	422	372	353	389	427	464	490
Domestic taxes on goods and services	131	142	163	198	253	261	278	306	339	376
Value-added tax	85	82	93	144	185	200	222	245	271	301
Other	45	60	70	54	68	61	56	61	68	75
Taxes on international trade and transactions	276	277	361	375	390	398	471	520	584	648
Import tariffs	248	250	356	364	377	383	425	469	519	576
Export taxes	28	27	6	11	13	15	46	51	65	72
Other non-oil taxes	38	54	44	51	53	61	70	78	97	107
Non-tax revenue	37	50	46	51	18	66	71	79	93	100
Grants	0	1	0	0	0	0	0	0	0	0
Total expenditure and net lending	1,336	1,348	1,707	2,269	2,641	2,847	2,967	3,083	3,196	3,391
Current expenditure	907	914	983	1,172	1,466	1,530	1,617	1,712	1,815	1,979
Wages and salaries	324	380	412	450	529	551	552	580	597	615
Goods and services	209	216	239	299	333	360	410	469	536	611
Interest payments	114	82	97	79	88	147	160	169	179	228
Domestic	32	19	23	13	20	33	31	29	29	29
Foreign	82	64	73	66	68	114	129	139	150	199
Transfers and subsidies	260	237	235	344	517	472	493	495	503	525
Capital expenditure	299	309	601	1,000	1,044	1,217	1,250	1,270	1,300	1,330
Domestically financed	244	210	377	500	796	848	761	759	765	868
Foreign financed	54	100	224	250	248	369	489	511	535	462
Net lending	21	51	65	19	74	40	40	40	20	20
Road Fund (FER) and special funds	71	63	58	78	57	60	60	60	61	61
Capital grants	0	1	0	0	0	0	0	0	0	0
Capital transfers	38	10	0	0	0	0	0	0	0	0
Overall balance	742	338	127	200	-95	-300	-342	-375	-381	-463
Total financing	-742	-338	-127	-200	95	300	342	375	381	463
Change in arrears	-131	-212	-68	-117	0	0	0	0	0	0
Domestic arrears payments	-131	-212	-68	-117	0	0	0	0	0	0
External arrears (interest only)	0	0	0	0	0	0	0	0	0	0
Foreign borrowing (net)	-887	-75	27	94	-31	136	230	233	203	182
Drawings	54	100	224	250	248	369	489	511	535	912
Amortization	-1,075	-176	-197	-139	-279	-233	-259	-278	-332	-729
Exceptional financing	133	1	0	0	0	0	0	0	0	0
Domestic borrowing (net)	276	-50	-102	-125	160	164	112	141	178	281
Banking system	276	18	260	19	207	4	33	42	53	131
Monetary authorities	-192	39	110	-26	91	-80	3	12	53	31
Deposit money banks	468	-21	149	44	116	84	30	30	0	100
Non-bank sector	0	-68	-60	-117	-46	160	78	99	125	150
Financing gap	0	0	0	0	0	0	0	0	0	0
<i>Memorandum item:</i>										
Non-oil primary balance excluding capital transfers (NOPD)	-467	-407	-761	-1,092	-1,467	-1,562	-1,528	-1,503	-1,439	-1,441
as percent of non-oil GDP	-12.5	-11.7	-18.0	-22.1	-26.4	-25.2	-22.2	-19.8	-17.1	-15.4
Non-oil GDP at market prices	3,731	3,475	4,238	4,936	5,553	6,200	6,882	7,592	8,406	9,328
Source: Gabonese authorities and IMF staff estimates and projections.										

Table 2b. Gabon: Statement of the Budgetary Central Government Operations (GFSM 2001), 2007–17											
(Billions of CFA francs, unless otherwise indicated)											
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
						Est.	Projections				
Revenue	1,636	2,078	1,685	1,834	2,469	2,546	2,547	2,625	2,708	2,815	2,927
Taxes	885	1,029	1,071	968	1,309	1,033	1,280	1,404	1,519	1,665	1,797
Taxes on income, profits, and capital gains											
Of which:											
Payable by individuals	77	86	103	100	200	72	71	63	56	50	44
Payable by corporations and other enterprises	363	498	495	300	486	372	489	521	559	596	621
Taxes on goods & services	130	131	142	163	198	253	261	278	306	339	376
Taxes on international trade and transactions	282	276	277	361	375	390	398	471	520	584	648
Taxes not elsewhere classified	32	38	54	44	51	53	61	70	78	97	107
Grants	0	0	1	0	0	0	0	0	0	0	0
Other revenue	752	1,049	614	866	1,133	1,312	1,267	1,221	1,189	1,150	1,130
Of which: Non-oil tax revenue	712	1,012	564	821	1,082	1,230	1,201	1,151	1,110	1,057	1,030
other non-oil revenue	40	37	50	46	51	18	66	71	79	93	100
Expenditure	1,156	1,315	1,297	1,642	2,190	2,567	2,847	2,927	3,043	3,176	3,371
Expense	838	907	914	983	1,172	1,466	1,530	1,617	1,712	1,815	1,979
Compensation of employees	302	324	380	412	450	529	551	552	580	597	615
Use of goods & services	190	209	216	239	299	333	360	410	469	536	611
Interest	119	114	82	97	79	88	147	160	169	179	228
Other expense	71	109	73	58	78	57	60	60	60	61	61
Net acquisition of nonfinancial assets	247	299	309	601	1,000	1,044	1,217	1,250	1,270	1,300	1,330
Domestically financed	199	244	210	377	500	796	848	761	759	765	868
Foreign financed	48	54	100	224	250	248	369	489	511	535	462
Net lending/borrowing	10	21	51	65	19	74	40	40	40	20	20
Net acquisition of financial assets ("+" : increase in assets)	-361	311	-31	271	267	411	276	203	189	173	243
Domestic	-361	311	-31	271	267	411	276	203	189	173	243
Currency and deposits	-451	276	18	260	19	207	4	33	42	53	131
BEAC	30	-192	39	110	-26	91	-80	3	12	53	31
Commercial banks	-482	468	-21	149	44	116	84	30	30	0	100
Loans	91	36	-50	11	248	204	271	169	146	119	112
Net incurrence of liabilities ("+" : increase in liabilities)	416	401	294	621	846	939	1,058	1,180	1,308	1,407	1,563
Domestic	456	532	506	689	963	939	1,058	1,180	1,308	1,407	1,563
Loans	59	-227	61	226	43	91	20	3	12	53	144
BEAC	30	-192	60	110	-26	91	20	3	12	53	144
Commercial banks	28	-34	0	116	68	0	0	0	0	0	0
Other accounts payable	-40	-131	-212	-68	-117	0	0	0	0	0	0
o/w arrears	0	0	0	0	0	0	0	0	0	0	0
Statistical discrepancy	0	0	0	0	0	0	0	0	0	0	0
Memorandum items:											
GDP at market prices	6,002	7,045	5,702	7,201	8,867	9,527	10,327	10,805	11,350	12,036	12,856
Non-oil GDP at market prices	3,084	3,731	3,475	4,238	4,936	5,553	6,200	6,882	7,592	8,406	9,328
Oil revenue	959	1,362	837	986	1,372	1,460	1,408	1,347	1,297	1,238	1,205
Non-oil revenue	678	716	848	848	1,097	1,086	1,139	1,278	1,411	1,577	1,722
Deposits in BEAC	551	907	908	857	1,104	1,162	1,271	1,402	1,486	1,476	1,333
Source: Gabonese authorities and IMF staff estimates and projections											

Table 3. Gabon: Central Government Accounts, 2008–17

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
				Est.			Projections			
(Percent of non-oil GDP)										
Total revenue and grants	55.7	48.5	43.3	50.0	45.8	41.1	38.1	35.7	33.5	31.4
Revenue	55.7	48.5	43.3	50.0	45.8	41.1	38.1	35.7	33.5	31.4
Oil revenue	36.5	24.1	23.3	27.8	26.3	22.7	19.6	17.1	14.7	12.9
Non-oil revenue	19.2	24.4	20.0	22.2	19.6	18.4	18.6	18.6	18.8	18.5
Tax revenue	18.2	23.0	18.9	21.2	19.2	17.3	17.5	17.5	17.7	17.4
Taxes on income, profits, and capital gains	6.3	9.4	5.5	8.6	6.7	5.7	5.6	5.6	5.5	5.3
Domestic taxes on goods and services	3.5	4.1	3.9	4.0	4.6	4.2	4.0	4.0	4.0	4.0
Taxes on international trade and transactor	7.4	8.0	8.5	7.6	7.0	6.4	6.9	6.9	6.9	6.9
Other non-oil taxes	1.0	1.6	1.0	1.0	1.0	1.0	1.0	1.0	1.2	1.2
Non-tax revenue	1.0	1.4	1.1	1.0	0.3	1.1	1.0	1.0	1.1	1.1
Total expenditure and net lending	35.8	38.8	40.3	46.0	47.6	45.9	43.1	40.6	38.0	36.3
Current expenditure	24.3	26.3	23.2	23.7	26.4	24.7	23.5	22.6	21.6	21.2
Wages and salaries	8.7	10.9	9.7	9.1	9.5	8.9	8.0	7.6	7.1	6.6
Goods and services	5.6	6.2	5.6	6.1	6.0	5.8	6.0	6.2	6.4	6.6
Interest payments	3.1	2.4	2.3	1.6	1.6	2.4	2.3	2.2	2.1	2.4
Transfers and subsidies	7.0	6.8	5.6	7.0	9.3	7.6	7.2	6.5	6.0	5.6
Capital expenditure	8.0	8.9	14.2	20.3	18.8	19.6	18.2	16.7	15.5	14.3
Domestically financed	6.5	6.0	8.9	10.1	14.3	13.7	11.1	10.0	9.1	9.3
Overall balance (commitment basis)	19.9	9.7	3.0	4.1	-1.7	-4.8	-5.0	-4.9	-4.5	-5.0
Total financing	-19.9	-9.7	-3.0	-4.1	1.7	4.8	5.0	4.9	4.5	5.0
Change in arrears	-3.5	-6.1	-1.6	-2.4	0.0	0.0	0.0	0.0	0.0	0.0
Foreign borrowing (net)	-23.8	-2.2	0.6	1.9	-0.6	2.2	3.3	3.1	2.4	2.0
Drawings	1.5	2.9	5.3	5.1	4.5	5.9	7.1	6.7	6.4	9.8
Amortization	-28.8	-5.1	-4.6	-2.8	-5.0	-3.8	-3.8	-3.7	-4.0	-7.8
Exceptional financing	3.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic borrowing (net)	7.4	-1.4	-2.4	-2.5	2.9	2.7	1.6	1.9	2.1	3.0
Banking system	7.4	0.5	6.1	0.4	3.7	0.1	0.5	0.6	0.6	1.4
Non-bank sector	0.0	-2.0	-1.4	-2.4	-0.8	2.6	1.1	1.3	1.5	1.6
(Billion of CFA francs, unless otherwise indicated)										
Total revenue and grants	2,078	1,685	1,834	2,469	2,546	2,547	2,625	2,708	2,815	2,927
Total expenditure and net lending	1,336	1,348	1,707	2,269	2,641	2,847	2,967	3,083	3,196	3,391
Overall balance	742	338	127	200	-95	-300	-342	-375	-381	-463
Memorandum items:										
Overall balance (percent of GDP)	10.5	5.9	1.8	2.3	-1.0	-2.9	-3.2	-3.3	-3.2	-3.6
Non-oil primary balance excluding capital transfers	-467	-407	-761	-1,092	-1,467	-1,562	-1,528	-1,503	-1,439	-1,441
As percent of non-oil GDP	-12.5	-11.7	-18.0	-22.1	-26.4	-25.2	-22.2	-19.8	-17.1	-15.4
Oil revenues (percent of oil GDP)	43.4	41.6	33.3	34.9	36.7	34.1	34.3	34.5	34.1	34.2
Basic balance (percent of GDP)	11.3	7.7	4.9	5.1	1.6	0.7	1.4	1.2	1.3	0.0
Public debt (percent of GDP)	16.0	23.9	20.4	18.2	18.8	20.6	22.7	24.8	25.9	28.4
Domestic debt (percent of GDP)	2.1	6.1	4.6	3.4	3.3	5.6	6.3	7.1	7.6	9.0
External debt (percent of GDP)	13.9	17.8	15.8	14.8	15.5	15.0	16.4	17.7	18.4	19.4
Non-oil GDP at market prices	3,731	3,475	4,238	4,936	5,553	6,200	6,882	7,592	8,406	9,328
Sources: Gabonese authorities and IMF staff estimates and projections.										

Table 4. Gabon: Monetary Survey, 2008–13

	2008	2009	2010	2011	2012	2013
				Est.	Projections	
(Billion of CFA francs, unless otherwise indicated)						
Net foreign assets	984	1,082	894	1,045	1,263	1,426
(US\$ millions)	2,198	2,291	1,805	2,217	2,438	2,693
Net domestic assets	155	83	495	712	714	781
Domestic credit	394	390	663	930	1,341	1,716
Claims on central government (net)	-215	-176	84	102	308	412
Claims on public agencies (net)	-21	-14	-24	-21	-21	-21
Claims on nongovernment	629	579	590	839	1,053	1,325
Other items (net)	-238	-307	-168	-218	-627	-935
Broad money (M2)	1,140	1,165	1,389	1,757	1,977	2,207
Currency	229	249	222	293	324	346
Deposits	911	916	1,168	1,464	1,653	1,861
(Change as percent of beginning of M2)						
Net foreign assets	-12.7	8.4	-16.2	10.9	12.4	8.2
Net domestic assets	21.4	-6.2	29.7	12.3	0.1	3.0
Domestic credit	30.7	-0.3	19.6	15.2	20.8	17.0
Claims on general government (net)	26.3	3.4	18.7	1.1	10.4	4.7
Claims on nongovernment	3.4	-4.3	0.8	14.1	10.9	12.3
Other items (net)	1.0	0.6	-0.7	0.2	0.0	0.0
<i>Memorandum items:</i>	(Annual percent change)					
Broad money (M2)	8.8	2.2	19.2	26.5	12.5	11.6
Reserve money (RM)	37.2	-4.3	7.9	30.6	52.6	-9.9
Credit to the economy	6.0	-7.9	1.9	42.0	24.4	26.0
Credit to the private sector (in percent of non-oil GDP)	16.9	16.7	13.9	17.0	18.8	21.2
Broad money (in percent of overall GDP)	16.2	20.4	19.3	19.8	20.7	21.4
Sources: Gabonese authorities and IMF staff estimates and projections.						

Table 5. Gabon: Financial Soundness Indicators for the Banking Sector, 2006–11

	2006	2007	2008	2009	2010	2011 ¹
Capital						
Regulatory Capital to risk-weighted assets	17.8	14.3	19.4	24.0	22.6	21.1
Capital to total assets	10.2	7.0	10.7	16.2	11.3	10.9
Asset quality						
Bank nonperforming loans to total assets	10.7	7.6	8.5	7.2	9.9	4.4
Bank provisions to non performing loans	57.4	59.8	61.4	71.0	56.8	93.2
Earnings and profitability						
Return on assets	2.5	2.7	1.8	2.8	0.5	0.6
Return on equity	23.5	32.3	20.8	17.2	5.8	5.1
Liquidity						
Liquid Assets to short-term liabilities	210.0	197.0	243.0	197.0	158.0	137.9
Sources: BEAC, COBAC, and staff estimates using definitions from IMF's "Compilation Guide on Financial Soundness Indicators."						
¹ The 2011 data are estimates at end-December 2011.						

Table 6. Gabon: Balance of Payments, 2008-17

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
				Est.			Projections.			
	(Million of US\$)									
Current account	3,664	907	1,289	2,655	2,285	2,029	1,414	964	598	461
Goods (net)	7,480	3,621	4,747	7,084	6,425	6,691	6,193	5,827	5,587	5,300
Export of goods (fob)	9,719	5,922	7,464	10,463	9,927	10,501	10,082	9,764	9,666	9,701
Hydrocarbons	7,546	4,909	6,512	9,382	8,760	8,879	8,397	7,992	7,665	7,427
Timber	581	473	231	141	325	397	414	453	541	650
Manganese	1,413	378	556	848	749	1,124	1,154	1,183	1,296	1,425
Import of goods (fob)	-2,239	-2,301	-2,718	-3,378	-3,502	-3,810	-3,889	-3,937	-4,079	-4,401
Petroleum sector	-504	-400	-556	-802	-752	-765	-726	-692	-664	-643
Other	-1,735	-1,901	-2,162	-2,577	-2,750	-3,045	-3,163	-3,245	-3,415	-3,758
Services (net)	-1,705	-1,516	-1,535	-1,913	-1,854	-2,089	-2,234	-2,391	-2,534	-2,744
Other private services	-473	-447	-573	-724	-707	-719	-723	-732	-743	-761
Income (net)	-1,849	-1,010	-1,686	-2,203	-1,985	-2,268	-2,240	-2,166	-2,146	-2,201
Current transfers (net)	-262	-189	-237	-313	-301	-306	-305	-306	-309	-309
Capital account	297	3	0	0	0	0	0	0	0	0
Financial account	1,966	-600	-599	-1,133	-1,598	-1,823	-1,157	-803	-618	338
Direct investment (net)	773	573	499	696	696	856	740	679	633	690
Portfolio investments (net)	108	0	0	0	0	0	0	0	0	0
Other investment assets and liabilities (net)	1,085	-1,380	-1,098	-1,829	-2,294	-2,537	-1,913	-1,482	-1,250	-352
Medium- and long-term transactions	2,355	469	640	553	743	836	1,136	1,223	1,366	2,811
Short term transactions	-1,270	-1,849	-1,738	-2,382	-3,037	-3,373	-3,049	-2,705	-2,617	-3,163
Errors and Omissions	-5,106	-311	-1,012	-1,011	-575	0	0	0	0	0
Overall balance	821	-1	-321	511	112	206	257	162	-20	384
Financing	-821	1	321	-511	-112	-206	-257	-162	20	-384
Change in net foreign assets	-821	1	321	-511	-112	-206	-257	-162	20	-384
Use of IMF credit and loans (net)	-25	0	0	0	0	0	0	0	0	0
Memorandum items:										
	(Percent of GDP)									
Current account	23.3	7.5	8.9	14.1	12.4	10.4	6.9	4.5	2.7	0.2
Oil	31.9	27.6	26.7	30.6	29.7	27.8	25.0	22.8	20.7	18.7
Non-oil	-8.6	-20.1	-17.9	-16.5	-17.3	-17.4	-18.1	-18.3	-18.0	-18.5
Capital and financial accounts	14.4	-4.9	-4.1	-6.0	-8.7	-9.3	-5.7	-3.8	-2.8	1.4
Overall balance	5.2	0.0	-2.2	2.7	0.6	1.1	1.3	0.8	-0.1	1.6
	(Billion of US\$, unless otherwise indicated)									
Gross official reserves imputed to Gabon	2.0	1.9	1.5	2.1	2.2	2.4	2.6	2.8	2.8	3.2
CEMAC gross official reserves	15.7	14.4	13.7	15.7	18.3	20.6	22.2	23.2	24.1	24.5
(months of CEMAC imports of GNFS)	7.2	5.8	4.5	5.0	5.7	6.3	6.3	6.6	6.8	8.4
(percent of broad money)	128.0	116.1	94.3	87.6	95.4	96.2	93.1	86.2	82.3	75.5
Sources: Gabonese authorities and IMF staff estimates and projections.										

Table 7. Gabon: External Debt, 2008–17

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
	Est.				Projections					
(Million of US\$, unless otherwise indicated)										
Debt stocks										
Total external debt (including IMF)	2,181	2,150	2,291	2,784	2,858	2,921	3,343	3,764	4,126	4,653
Multilateral	353	280	246	472	483	521	619	950	1,556	1,583
Bilateral	947	924	1,154	1,544	772	764	1,242	1,570	1,694	1,647
Commercial debt	995	869	871	923	1,666	1,641	1,488	1,251	884	1,423
International Bond	946	901	879	875	875	875	875	875	875	--
Late Interest not paid (IDR)	39	34	41	35	35	35	35	35	35	35
Debt service										
Principal										
Total (Including IMF)	2,400	374	397	329	538	440	488	521	620	1,360
Multilateral	83	63	59	57	47	78	101	62	62	160
Bilateral	2,115	174	132	241	79	63	96	70	165	317
Commercial debt	201	137	206	31	412	299	292	389	393	883
Interest										
Total (Including IMF)	184	135	148	144	157	215	247	271	293	386
Multilateral	18	20	21	16	15	14	16	22	41	92
Bilateral	77	43	41	50	23	44	62	86	102	152
Commercial debt	89	73	84	78	119	157	169	162	150	142
(In percent)										
Memorandum items:										
Debt service to exports ratio	26.6	8.6	7.3	4.5	7.0	6.2	7.3	8.1	9.4	18.0
External public debt to GDP ratio	13.9	17.8	15.8	14.8	15.5	15.0	16.4	17.7	18.4	19.4
External public debt to exports ratio	22.4	36.3	30.7	26.6	28.8	27.8	33.2	38.5	42.7	48.0
Sources: Gabonese authorities and IMF staff estimates and projections.										

Table 8. Gabon: Millennium Development Goals (1990-2009)

	1990	1995	2000	2005	2009
Goal 1: Eradicate extreme poverty and hunger					
Employment to population ratio, 15+, total (%)	60	60	60	61	62
Employment to population ratio, ages 15-24, total (%)	40	41	40	39	38
Malnutrition prevalence, weight for age (% of children under 5)	..	..	9	..	..
Goal 2: Achieve universal primary education					
Primary completion rate, total (% of relevant age group)	70	68	72	69	..
Total enrollment, primary (% net)	..	92	82	..	..
Goal 3: Promote gender equality and empower women					
Proportion of seats held by women in national parliaments (%)	13	..	8	9	17
Ratio of female to male primary enrollment (%)	100	99	100	99	..
Ratio of female to male secondary enrollment (%)	86	82	86	..	..
Ratio of female to male tertiary enrollment (%)	42	..	54	..	..
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	..	29.3	..	..	..
Goal 4: Reduce child mortality					
Immunization, measles (% of children ages 12-23 months)	76	57	55	55	55
Mortality rate, infant (per 1,000 live births)	68	65	63	59	55
Mortality rate, under-5 (per 1,000)	93	89	88	82	75
Goal 5: Improve maternal health					
Adolescent fertility rate (births per 1,000 women ages 15-19)	..	130	116	97	86
Births attended by skilled health staff (% of total)	..	..	86	..	..
Contraceptive prevalence (% of women ages 15-49)	..	..	33	..	..
Maternal mortality ratio (modeled estimate, per 100,000 live births)	260	250	260	260	260
Pregnant women receiving prenatal care (%)	..	..	94	..	..
Unmet need for contraception (% of married women ages 15-49)	..	..	28	..	..
Goal 6: Combat HIV/AIDS, malaria, and other diseases					
Children with fever receiving antimalarial drugs (% of children under age 5 with fever)	..	..	..	..	..
Condom use, population ages 15-24, female (% of females ages 15-24)	..	..	..	..	..
Condom use, population ages 15-24, male (% of males ages 15-24)	..	..	..	..	..
Incidence of tuberculosis (per 100,000 people)	153	155	248	326	502
Prevalence of HIV, female (% ages 15-24)	..	..	..	..	3.5
Prevalence of HIV, male (% ages 15-24)	..	..	..	..	1.4
Prevalence of HIV, total (% of population ages 15-49)	0.9	3.1	5.2	5.4	5.2
Tuberculosis case detection rate (% , all forms)	65	66	73	56	41
Goal 7: Ensure environmental sustainability					
CO2 emissions (kg per PPP \$ of GDP)	0	0	0	0	0
CO2 emissions (metric tons per capita)	5	4	1	1	2
Forest area (% of land area)	85.4	..	85.4	85.4	85.4
Improved sanitation facilities (% of population with access)	..	36	36	33	33
Improved water source (% of population with access)	..	84	85	86	87
Marine protected areas (% of territorial waters)	0	0	1	7	7
Net ODA received per capita (current US\$)	141	132	9	44	52
Goal 8: Develop a global partnership for development					
Debt service (PPG and IMF only, % of exports, excluding workers' remittances)	5	15	9	3	..
Internet users (per 100 people)	0.0	0.0	1.2	4.9	6.7
Mobile cellular subscriptions (per 100 people)	0	0	10	54	93
Telephone lines (per 100 people)	2	3	3	3	2
Fertility rate, total (births per woman)	5	5	4	4	3

Source: World Development Indicators

APPENDIX I. STRATEGIC PLAN FOR “EMERGING GABON”

1. Gabon aims at becoming an emerging country by 2025. While being an upper-middle income country with per capita income four times the sub-Saharan African average and having Central Africa’s only tradable Eurobond, Gabon still faces a two-fold challenge to: (i) create a diverse economic fabric that will associate the development of natural resources and higher value-added industries and services, and (ii) provide full employment to the relatively young population.

2. To address the challenge of economic diversification, Gabon has developed a new economic plan aimed at making the country an emerging country in less than fifteen years under a policy vision known as the Strategic Plan Gabon Emergent (PSGE). Developing the new objectives for economic diversification and growth will necessitate raising the capital budget to above CFAF 1,200 billion until 2017—compared to an annual average of CFAF 300 billion between 2005 and 2009.

3. The Gabonese authorities launched an ambitious medium-term reform and investment plan in the context of the PSGE. The substantially scaled-up investment plan for the period 2010-16 includes projects at the national level for an estimated cost of US\$11 billion, in addition to projects for the capital city Libreville of US\$1 billion. The national projects are mainly for developing transport infrastructure (roads, trains, and ports), the energy sector, and large iron ore mining, while the projects for Libreville focus on housing, transportation and sanitation. Gabon’s strategy also encourages domestic and foreign private investment through the special economic zones (SEZs). The political and economic reforms to transform Gabon into a newly emerging country announced by President Bongo in 2009 aim at strengthening and diversifying the economy around three pillars:

- *Gabon Vert* (Green Gabon) to sustainably develop the country’s natural resources: 22 million ha of forest, 1 million ha of arable land, 13 national parks, 800 km of coastline;
- *Gabon Industriel* (Industry Gabon) to develop local processing of primary materials, export of high value-added products; and
- *Gabon des Services* (Services Gabon) to develop the Gabonese workforce to become a regional leader in financial services, green growth, tertiary education and health.

4. The “Emerging Gabon” development plan is broken down into several sectoral plans, which make up the 2011 to 2016 five-year program. Among them,

- **Mines and Hydrocarbons Plan:** aims at launching new deep-sea oil fields production, developing gas production and realizing the potential of the mining sector, by 2016. The development of a national Mines and Hydrocarbons industry is based, among other things, on the creation of the Gabon Oil Company.

- **Wood and Forest Economy Plan:** targeting the creation of industrial and logistical infrastructures to help develop special economic zones devoted mainly to the wood-processing industry (*Nkok* Special Economic Zone).
- **Agriculture and Farming Plan** including projects to develop intensive food-production industries, setting up agro-pastoral farms (LR Group project), development of integrated poultry rearing and the palm oil industry (OLAM), in addition to development of the rubber industry (SIAT) and the launch of the coffee/cocoa industry, etc.
- **Fishing Plan** restructuring the sector by drafting laws for creating a national fishing industry and developing outlets to valuable markets.
- **State Reform and Modernization Plan:** establishing a Gabonese public administration on which to build the foundations of Emerging Gabon.
- **Business and Private Sector Support Framework Plan:** modernizing the playing field for companies, the enhancement of which should improve competitiveness
- **Electricity Plan:** covering all the energy requirements of Emerging Gabon with projects such as the Grand Poubara hydroelectric dam in the east of the country (160 MW), the Impératrice hydroelectric dam (84 MW), a construction project north of the Mitzic hydroelectric dam and the Alénakiri natural gas thermal power plant in Libreville with a power capacity likely to reach 70 MW. Over time the government expects to double its energy production capacity to 1000 MW.

APPENDIX II. ANCHORING FISCAL POLICY IN GABON

Anchoring fiscal policy is particularly challenging for Gabon because of the country's heavy reliance on highly volatile oil revenue and large development needs. In such a case, fiscal policy can be anchored by implementing a simple oil revenue rule to pin down budgetary revenue and basing capital expenditure on an assessment of an adequate capital spending envelope over the scaling up period taking into account absorptive and implementation capacity. The revenue and expenditure paths can then be calibrated to ensure consistency with a fiscal sustainability framework targeting stabilization of total net wealth (financial and physical).¹

A. Reducing Expenditure Volatility

- 1. The authorities' strategy would need to strike the right balance between large development needs and limited oil revenues while maintaining the fiscal sustainability.** In the past, the authorities have been focused on complying with CEMAC overall fiscal surplus criterion and, more recently, their fiscal strategy has been inspired by a wide-ranging development plan aimed at making Gabon a diversified emerging economy by 2025. Aware of high non-oil primary deficit and of the importance of fiscal sustainability, the authorities are aiming at putting in place a sustainable medium term framework encompassing their public investment plan and improving public financial management (PFM).
- 2. Putting in place a credible framework regulating the use of fiscal buffers would enable the government to implement capital spending plans without requiring additional financing and avoiding sharp absorption drops.** Without such buffers, fiscal spending is exposed to oil price volatility which not only amplifies the economic cycles but also usually affects the medium-term efficiency of investment and hence potential growth.
- 3. In the simplest case, an oil price-based rule can be used to smooth forecasted oil revenues and budgetary expenditures.** Under such a framework, budgetary revenues are projected using a smoothed formula-based oil price, which could then be used to guide the expenditure envelope. When actual oil prices are higher (lower) than the budget-oil price, actual (realized) revenues are higher (lower) than budgetary revenues and the surplus (deficit) is accumulated in (withdrawn from) a stabilization buffer.
- 4. The application of a budget oil price to data for Gabon points to a significant reduction in the potential volatility of budgetary oil revenues.²**

¹ "Macroeconomic Policy Frameworks for Resource-Rich Developing Countries", (IMF Policy Paper, August 24, 2012).

² The size of the stabilization buffer depends on the authorities' risk aversion to ensure the implementation of its spending envelope. The larger the desired smoothing and the less responsive budgetary revenues become to price shocks, the larger the needed stabilization buffer to effectively insure against shocks. Cross country experience indicates that using an 8-year moving average (5 historical years and 3 years of forward projection) reduces volatility relative to actual prices while still allowing the budgetary price to react to market shocks.

Figure II.1. Republic of Gabon: Distribution of Future Government Oil Revenues Without and With a Stabilization Framework, 2012–16.

5. Staff estimates based on a value-at-risk analysis suggests that resources deposited with the BEAC are currently insufficient to provide sufficient liquidity to offset the impact of fluctuations in oil prices. The initial stabilization buffer should be large enough to ensure that, given an oil price-based budget rule, the buffer would not be fully depleted over a period of three years with a high degree of confidence. This aims to avoid the high cost of adjustment in the event that the buffer was fully depleted. The minimum required size of the stabilization buffer is estimated by simulating stochastically the impact of oil prices on the fiscal accounts using the Gabonese specified oil production profile and fiscal regime. The minimum buffer required is CFAF 750 billion to ensure with a probability of 85 percent that the buffer is not fully depleted over a three year period. This compares with the current amount of Treasury deposits with the BEAC (excluding cash balances) of about CFAF 250 billion, and the objective of the authorities to accumulate at least CFAF 500 billion in the *Fund for Future Generations* deposit window at BEAC.

B. Fiscal Sustainability

6. Expenditures can be anchored in the medium to long term using a fiscal sustainability framework which aims at stabilizing the total net wealth. Specifically, the framework allows for a scaling-up of investment to address infrastructure needs, raise overall productivity and enhance long-term potential growth. In this context, welfare can be improved by drawing down natural resource wealth in the short term, to the extent that the scaling-up of investment has a high enough return.

7. An illustrative scenario suggests that Gabon, after having met its infrastructure needs, would need to engage a fiscal consolidation to preserve long-term fiscal sustainability. The main elements of the analysis are the following:

- *A medium-term path for spending consistent with a declining path for the non-resource primary fiscal deficit (NRPD).* After having built up basic infrastructure during the implementation of the development plan, the authorities would scale down capital spending

in 2016–30. This would also allow room for growth in maintenance costs for the new infrastructure. Fiscal consolidation would be pursued over time to bring the NRPD to the average fiscal balance of emerging market economies.

- *Long-run level of the NRPD needed to maintain a given level of wealth.*³ It is assumed that the NRPD would decline gradually to reach a level of just over 2 percent of non-hydrocarbon GDP, which would be consistent with maintaining total net wealth at about 76 percent of non—hydrocarbon GDP in 2030 (Figure II.2).

- *Calibrate assumptions of fiscal policy to ensure consistency with the fiscal sustainability framework assumed (Table II.1).* Government capital spending would decline to around 8 percent of non-hydrocarbon GDP, which is a ratio similar to the one observed in other emerging market economies. At the same time, primary current expenditure, after a decrease reflecting the removal of (non-poor related) subsidies, is expected to increase, driven by the higher costs of utilizing the enhanced capital stock and improved social services. The expected increase in non-resource revenue mobilization would reflect reforms of tax administration and enforcement aimed at increasing tax collection, and the curtailment of tax exemptions.

³ Net wealth is defined as the sum of the present value of future oil revenue plus net financial assets. For a formal definition of the net wealth-stabilizing level of the NRPD, see the annex to “Macroeconomic Policy Frameworks for Resource-Rich Developing Countries”, ([IMF Policy Paper, August 24, 2012](#)).

Table II.1. Gabon: Selected Fiscal and Financial Indicators 2011–2030

	2011	2012	2013	2016	2020	2025	2028	2030
	(Percent of non-resource GDP)							
Non-hydrocarbon revenue	22.4	18.9	18.4	18.8	18.6	22.4	22.8	23.4
Primary expenditure	42.4	42.3	41.9	34.9	28.5	27.4	23.9	25.0
Capital	20.3	18.8	19.6	15.5	12.1	9.9	8.7	7.9
Primary current	22.1	23.5	22.3	19.5	16.4	17.6	15.2	17.1
Non-hydrocarbon primary balance (NRPB)	-20.4	-25.7	-25.2	-16.9	-10.5	-5.5	-3.4	-2.0
Hydrocarbon revenue	27.8	26.3	22.7	14.7	10.9	8.0	6.9	6.2
Net financial assets	8.7	8.8	5.9	-0.9	-3.0	5.6	15.0	23.0
Natural hydrocarbon wealth	0.0	317.1	279.0	199.4	135.0	87.4	65.3	53.1
Total wealth	930.0	829.3	284.9	198.5	131.9	93.0	80.2	76.1

Sources: Gabonese authorities; and IMF staff estimates and projections.

8. Such a scenario shows that aiming at a (non-oil) fiscal position comparable to the level of emerging market economies would be consistent with fiscal sustainability over the longer term. This would allow building up positive financial net wealth, along with remaining oil wealth, in 20 years from now.⁴ The adjustment path appears feasible but would require a gradual decline in capital spending, a restraint in current expenditures and a strengthening in public financial management and tax administration. It would leave total wealth (as measured by the oil and financial wealth) to a level equivalent at one quarter of today's estimated oil wealth, but the Gabonese economy would be equipped with the infrastructure needed for a more sustained and job creating private sector development.

⁴ Gabon has an oil horizon of 50-60 years at currently projected production levels. Oil resources would therefore not be exhausted at the end of the illustrative scenario presented here.

APPENDIX III. OIL SUBSIDIES IN GABON

1. Like many other oil exporters, the Gabonese authorities have chosen to keep domestic oil prices below international prices for many years. Earlier work conducted at the Fund found that the premium of international oil prices (inclusive of taxes) over domestic prices was about 25 percent in the mid-2000s (Leigh 2006). Recent analysis conducted at the Ministry of Petroleum confirms this earlier calculation. As of February 2012, international premium gas prices were about 27 percent higher than domestic prices while international diesel prices were 32 percent higher. Domestic oil prices in Gabon are among the lowest in a sample of West African oil and non-oil exporters, with only the Republic of Congo and Equatorial Guinea having lower prices for diesel prices and Equatorial Guinea and Chad with lower premium gas prices.

Sources: Gabonese authorities and GDI

2. The total value of the oil price subsidy amounts to about 2 percent of GDP and is considerably higher than many other Sub-Saharan African countries. This calculation is based on taking the difference between the domestic and international prices of various components of oil and weighting the aggregate by the consumption shares of various types of oil. The oil categories that receive price subsidies include premium gas, regular gas and diesel, with diesel having the highest use at about 73 percent of the total. Premium gas contributes 11 percent while regular gas makes up 5 percent. The other categories include jet fuel and butane but jet fuel is not taxed. Interestingly, the component with the highest subsidy (diesel) is mostly used by businesses while the two other oil components with lower subsidies are mostly used by households.

3. Since oil prices are projected to remain high and oil demand projected to increase rapidly, the fuel subsidy is not expected to decline much over the short term. Current projections indicate that the subsidy will remain at about 1.6 percent of GDP through 2015. Given the high level of subsidy, the government is currently considering three options to reduce the budgetary cost. The first option is to eliminate the subsidy completely by raising the oil price to international levels. This would completely alleviate fiscal expenditures but could result in an unfavorable social impact. The second option would be to liberalize the premium gasoline and diesel prices but prevent lamplight and butane gas prices from rising over a statutory ceiling. This would help protect the expenditure budgets of poorer segments of the population that spend large amounts of their budget on these expenditures.

4. Leigh and al. (2006) have found that the poorest two deciles spend about 1-2 percent of their expenditures on butane gas and between 1–1½ percent of their expenditures on lighting kerosene. These significant shares compare with almost zero expenditure for the richest decile on lighting kerosene and about 1 percent of expenditures for butane gas. The richest decile spend most money on transport fuel (super gasoline and diesel) with an expenditure share of about 2½ percent. Expenditures of the richest decile are much higher than for the poor so that the value of the fuel subsidy is so much larger for the richest at 57,000 CFA per capita compared with only 4,000 CFA for those in the poorest decile.

5. The third option is to maintain prices stable for consumers and raise prices for oil used for industrial purposes. The problem with this option is that it does not get at the issue of better targeting because the richest individuals would still benefit from subsidized prices. Moreover, it would be difficult to monitor and create distortions and incentives for people to avoid declaring their business status to receive subsidized oil.

Gabon's subsidized price structure (per liter in February 2012, unless otherwise specified)						
	super		petrol		diesel	
	household	business	household	business	household	business
Domestic price based on world oil price						
inclusive of import taxes	654.7		537.2		622.4	
Consumption taxes	73.6		64.0		70.3	
total price	728.3		601.2		692.7	
Domestic subsidized price	535.0		275.0		470.0	
Oil price subsidy (CFAF Libreville)	193.3		326.2		222.7	
Subsidy as fraction of world price	0.27		0.54		0.32	
Consumption	87.2	3.0	25.4	14.9	162.2	425.8
Subsidy total (in billions of CFA francs)	17.4		13.1		130.9	
Subsidy (in percent of GDP)	0.2		0.1		1.5	1.8
Source: Gabonese authorities and staff estimates						

6. Sogara is Gabon's refining company, responsible for refining the component of Gabon's oil production that is used for domestic consumption. It has been in operation for over 40 years and its equipment is old. Moreover, stringent oil sulphur content guidelines imply that Gabon will not be able to refine its oil in the near future without significant new investment. Although its financial position has improved in recent years, it still receives small government subsidies (about 0.1–0.2 percent of GDP) and its debt liability to the government has been restructured. Even though 75 percent of the company is privately owned, all of its financial support has come from the government.

7. The staff's position is that the company is not financially sustainable and therefore consideration should be given to its closure with domestic consumption needs obtained through imports. Indeed, because of strike activity earlier this year which involved the closure of the company for over two months, refinery output is projected to decline by 25 percent in 2012, with imports making up the difference. There is some discussion with a Korean firm about taking over the company and establishing a much larger refinery and therefore the authorities may wait to see if this other option pans out before making any decisions on the future of the company.

APPENDIX IV. PUBLIC FINANCE MANAGEMENT REFORM

1. Budget execution has not been satisfactory. Weaknesses in the public finance management system were key factors for the low rates of implementation of priority programs—in particular, in the social, economic and public works sectors—affecting the quality and efficiency of government spending. A World Bank Public Expenditure Review found that the main shortcomings included: (i) budgetary programming that does not really rely on the priorities defined by the GPRSP and the absence of multi-year programming, (ii) the absence of prior project studies indicating the actual cost, technical specifications, schedule and delivery deadlines, (iii) late disbursement of budgetary allocations, (iv) late introduction (in 2010 only) of procurement plans and commitment plans in the sectoral ministries, (v) the low capacity of sectoral ministries to draw up and monitor procurement plans, (vi) the modification of the sectoral ministries' budgets without earlier consultation and without the prior authorization of Parliament, (vii) shortcomings in the auditing of services rendered leading to discrepancies between budget execution and physical performance, and (viii) the length of the expenditure chain, particularly in the payment phase due to the low quality of supporting documents, but also to cash shortages (the 60-day payment period may be reduced once the texts on the nomenclature of supporting documents have been adopted).¹

2. Gabon is implementing a medium-term budget reform to support efforts to advance the Strategic Development Plan. Following a regional CEMAC agreement, the Gabonese authorities have agreed to implement a program budgeting by objectives.² The new organic finance law aims at reforming the public finance management framework to turn it result-based, more efficient, and transparent to strengthen budgetary and accounting information. The budget to be formulated in the form of program objectives and assessed on the basis of outcomes will better align the budget with national priorities specified by the development plan.

3. The transition to a new budget structure, by program objectives, requires a transitional period of approximately three years. During this period, ministries are preparing medium-term expenditure frameworks structured in the form of programs. Budgeting by program objectives involve working on specific areas such as:

- **Budget architecture:** with the support of AFRITAC, a common budgetary process is being implemented for all programs run by all ministries, including internal controls and audit mechanisms.
- **Legal reform:** the implementation legal changes regarding accounting and ordinances to secure and make possible budget financial controls;

¹ Gabon, *Public Expenditure Review—Better management of public finance to achieve Millennium Development Goals*—Report No. 62548-GA, March 2012.

² CEMAC members have adopted a Directive (N°01/08-UEAC-190-CM-17 and Organic Law N°31/2010 from October 21, 2010 promulgated in October 2012) to reform budgetary process and execution.

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- **Human resources:** the launch of an information system to support human resource administration including the rationalization of administrative entities and procedure manuals for managing program budgets;
- **Accounting:** a new budgetary accounting by objectives establishing cost analysis and a nomenclature for the budgets compatible and aligned with CEMAC guidelines.
- **Communication:** to produce timely and accurate information about projects—duration and medium-term goals connected to the different budgets—to help implement the budget process.

Program Implementation

4. To implement the program, the authorities have created an inter-ministerial group with the responsibility of implementing the project. Budget by Program Objectives is being implemented through a pilot covering four ministries: economy, national education, energy and budget. The project's next steps are targeting the definition of objectives, strategies and indicators. In particular, the timetable to finalize the project by 2015 include the following steps:

- a. Preparation of the new Organic Finance Law (2008–2010) (completed)
- b. Preparation of supporting documentation (2011–2013)
- c. Structuring pilot cases involving four ministries—education, energy, economy, and budget—(August 2011–July 2012) (completed)
- d. Expanding the program structure to all ministries (July 2012–March 2013)
- e. Launching the 2014 budget under the new guidelines in parallel with the current methodologies and guidelines.
- f. Preparing the 2015 budget under the new format for all ministries/sectors.

5. It is envisaged that, during the three-year-transitional period, ministries involved in the pilot program finalize their medium-term expenditure frameworks.

APPENDIX V. EMPLOYMENT AND INCLUSIVENESS

Despite high and sustained growth registered since 2003, unemployment rate in the formal sector has been increasing, especially among the youth and women. This jobless growth results from different factors including lack of economic diversification, an education system ill suited to the needs of the labor market, rigid job market regulation, and inadequate coordination among different national agencies to facilitate employment.¹

A. Has growth been inclusive?

1. Although recent growth in Gabon has been fairly positive, it has not been sustained and broadly based². With the oil sector contributing for more than half of the GDP and around 55 percent of the fiscal revenues, growth has been volatile and driven by oil sector shocks. The share of agriculture (less than 3 percent of the GDP) and forestry sectors (less 1 percent) have decreased steadily whereas the share of the construction sector, dominated by public investment cycles, is highly import intensive. Looking ahead, a diversification of the economy towards the non-oil sector through infrastructure projects financed by public investment, enhanced business climate and developing of mining sector and transformation industries are expected to offset the decline in the oil production.

2. The use of oil revenues and growth have not been very inclusive. While per capita GDP in Gabon at more than 10'000 USD is one of the highest in SSA, one third of the population lives in poverty and more than 20 percent of the active population is excluded from the formal labor market. The dominance of the oil sector, a poor education system leading to labor skills mismatch, a rigid labor regulation and lack of basic infrastructure have led to high underemployment especially among the youth and women.

B. Background – Demographic and social indicators

3. The population of Gabon is young and urban. According to the 2011 household survey, nearly 36 percent of the total population of 1.6 million is under 15, in contrast to a mere 4.7 percent aged 60 or over. The working age population (age 15 to 64) is estimated at 50 percent of the population, with half between the ages of 15 to 29.

¹ This appendix draws on discussions of the IMF staff with the Gabonese authorities and World Bank staff.

² According to the Growth Commission, World Bank, cases of successful inclusive growth tend to span over three decades.

Sources: Gabonese authorities and IMF staff.

Note: Data available only for the formal sector.

4. The people of Gabon are predominantly urban, migrant and poor. The urban population is estimated at 84 percent, mostly in the three main cities of the country. Over 20 percent of the total population is migrants (foreigners) with a large majority originating from Western and Central African Countries. About one third of the population lives in poverty.

5. Unemployment is widespread but affects mostly women and the youth. The national unemployment rate is preliminary estimated at 28 percent (if the discouraged unemployed people are taken into account and at 20 percent according to the ILO definition). About 87 percent of the unemployed people live in the urban areas, and 60 percent are women. The level of youth unemployment, preliminary estimated at 37 percent, is comparable to other SSA middle income countries.

6. Most economic activity and jobs occur in the formal public sector. The formal sector is dominated by civil servants and employees of former state-owned enterprises. Following scaling up of investment, public employment accounted for 62 percent of the formal working force in 2010. Private formal employment is highest in the forestry (employing about 3 percent of the working force), services and manufacturing sectors. The share of the informal sectors has increased and represents about 47 percent of the total working force. Lower share of the private employment might also mask the shift of some employers in the informal sector resulting from high relative minimum wages and rigid labor market regulation in the formal sector.

C. What are the reasons of the jobless growth?

7. Four main factors explain the jobless growth: lack of economic diversification, an education system ill suited to the needs of the private sector, a rigid job market and lack of a clear policy to facilitate employment.

- 8. The Gabonese economy is highly reliant on the oil sector.** Formal private sector activity is dominated by the capital intensive oil sector, which provides only around 2,400 jobs, and more recently mining and public sector-related construction (contractors). Economic diversification is hindered by lack of infrastructure (roads and energy/electricity, lower access to financing), an unfavorable business environment and weak governance.
- 9. The inadequate education system leads to skills mismatch.** Gabon's rates of schooling and literacy are higher than the SSA average, yet its education focuses primarily on general education rather than technical training. The share of students going to tertiary education is at the SSA average, but most students enroll in arts and humanities (63 percent), limiting job opportunities to public administration or teaching. Having less than 8 percent of students in technical education is leading to a severe shortage of technically skilled workers needed in the labor market. In addition, the quality of teaching has not kept pace with growing school attendance, as noted by rising student-teacher ratios and also the highest repeating rates in world for students. The high share of well educated unemployed and rising underemployment is indicative of a mismatch between the skills demanded by the growing economic diversification and those offered by job seekers.
- 10. Rigid job market regulation and costly social contributions.** Procedures under the current labor code for separation are cumbersome, complex and costly, including for layoffs due to economic or technical reasons. At the same time, quota system and cumbersome administrative measures hinder private sector to hire foreigners and meet labor demand requiring technical skills. In addition, only 2.5 percentage points out of 22.5 of social contributions are paid by employees, leaving a higher cost for enterprises. All those factors inhibit hiring and therefore reduce formal employment flexibility.
- 11. Lack of coordination of agencies hinders the implementation of measures to make the labor market more dynamic.** Gathering information on the labor market is challenging given the large informal sector and also inconsistent figures among multiple agencies dealing with employment in the country. Despite the fact that the National Employment Office is still the main employment agency, only a small fraction of job seekers (less than 10 percent of enrolled unemployed) find employment through its intermediation. Reasons include lack of knowledge of the process or belief that it would not be helpful—indeed, roughly 60 percent of job seekers use personal relationships (parents/friends) to find employment. At the same time, the policies and programs aimed at promoting employment are underfunded, and are undergoing changes in their institutional framework. More broadly, the roles and responsibilities of the various ministries and agencies in charge of labor market issues (the National Employment Office, Social Security, Ministry of Economy) are not clearly defined.

D. Key measures to support job creation

- 12. The high level of unemployment and the complexity of the challenges to overcoming jobless growth necessitate a multipronged approach.** Intensified efforts will be

required to (a) increase employment opportunities in the private non-oil sector, (b) improve the quality and the adequacy of education to eliminate the skills mismatch, and (c) create a legal environment supportive of a favorable business climate and dynamic labor market.

13. Addressing labor supply challenges. Increasing formal sector employment requires a reduction in the current skill mismatch through improvements in the adequacy of education. As a first step, a skills assessment aimed at understanding private sector labor skill needs (demand) and labor supply in the formal and informal sectors (supply) should be conducted. This should be supported by sustained dialogue between the public and private sectors and training institutions—technical and vocational training programs should be reformed in line with market needs. The quality and the technical orientation of the education system should be improved. Accordingly, the budget allocation in education should be augmented.

14. Reforming the legal and regulatory framework to support employment creation. Key actions should include: (i) elaborating a national labor market policy (current policies and regulations reviewed and revised) and defining clear roles and responsibilities to facilitate coordination across ministries and agencies; (ii) providing adequate funding for the implementation of the national employment policy as a first step toward a long-term labor market policy; and (iii) swiftly implementing well targeted (youth) employment programs based on experience and best practice of other countries.

APPENDIX VI. ASSESSING DEBT SUSTAINABILITY

A. External debt sustainability

1. **Debt level and structure.** Gabon's external debt amounted to US\$3 billion (15.5 percent of GDP) in 2012 (Table A1), with bilateral debt accounting for about half.
2. **Baseline scenario.** Under the baseline scenario, the medium term overall fiscal deficit stabilizes at about 3½ percent of GDP. Real output growth stabilizes at about 7 percent per annum over the medium term with non-oil GDP growth averaging almost 10 percent and oil growth projected to decline by slightly less than 1 percent per annum. Gabonese implicit interest rates remain quite high over the medium term at about 8–9 percent, considerably above international borrowing rates. International oil and other commodity prices reflect World Economic Outlook projections through 2017. Under this scenario, the debt-to-GDP ratio rises to peak at 19.4 percent in 2017. In 2017, we assume that the international bond for US\$1 billion that was issued in 2007 to reduce the government debt burden is rolled over.
3. **Shocks.** Some of the risks to the outlook are substantial. While the impact of changes in interest rates and non-oil growth are benign, the current account and depreciation shocks are more substantial. A one half standard deviation of historical movements in the current account would raise the deficit by 4 percentage points of GDP per annum. This corresponds to a 17 percent reduction in oil prices over the projection period and would result in a rise in the debt ratio to over 34 percent of GDP in 2017. The combined shock also has a large impact on the debt ratio, peaking at 29 percent of GDP in 2017.

B. Public debt sustainability

4. **The analysis covers only central government debt, because limited information is available beyond the central government.** The findings mirror the external debt sustainability analysis:
5. **The scenarios based on historical averages and the standard stress tests confirm the declining and benign profile of debt for the forecast period.** The projections under the historical scenarios differ from the baseline in two respects: an average annual GDP growth of 1.5 percent and a primary surplus of 7.1 percent. Under the baseline scenario, the public sector debt ratio would increase gradually to 28 percent of GDP in 2017. Even under standard stress tests, the projected level of public debt would remain well below 40–60 percent of GDP, the range that is often deemed too high for an emerging market.

Table 1. Gabon: External Debt Sustainability Framework, 2007-2017
(In percent of GDP, unless otherwise indicated)

	Actual					Projections					
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1 Baseline: External debt	34.3	13.9	17.8	15.8	14.8	15.5	15.0	16.4	17.7	18.4	19.4
2 Change in external debt	1.6	-20.4	3.9	-2.0	-1.0	0.7	-0.6	1.5	1.3	0.7	1.0
3 Identified external debt-creating flows (4+8+9)	-0.4	-35.2	-8.1	-15.3	-21.4	-17.1	-15.7	-11.6	-8.8	-6.7	-4.4
4 Current account deficit, excluding interest payments	-16.5	-24.5	-8.6	-9.9	-14.9	-13.3	-11.5	-8.2	-5.8	-4.0	-1.8
5 Deficit in balance of goods and services	-29.8	-36.7	-17.4	-22.1	-27.5	-24.9	-23.6	-19.5	-16.2	-13.6	-10.7
6 Exports	58.0	63.6	52.3	53.6	57.7	56.4	56.4	52.2	48.6	45.8	43.1
7 Imports	28.2	26.8	34.8	31.5	30.2	31.5	32.8	32.7	32.4	32.2	32.5
8 Net non-debt creating capital inflows (negative)	-6.1	-4.9	-4.7	-3.4	-3.7	-3.8	-4.4	-3.6	-3.2	-2.8	-2.9
9 Automatic debt dynamics 1/	22.2	-5.8	5.3	-2.0	-2.8	-0.1	0.2	0.2	0.2	0.1	0.3
10 Contribution from nominal interest rate	3.2	1.2	1.1	1.0	0.8	0.9	1.1	1.2	1.3	1.3	1.6
11 Contribution from real GDP growth	-2.7	-0.3	0.5	-1.0	-0.9	-0.9	-0.9	-1.0	-1.1	-1.2	-1.3
12 Contribution from price and exchange rate changes 2/	21.7	-6.7	3.7	-2.0	-2.7	...	...	...	...	...	...
13 Residual, incl. change in gross foreign assets (2-3) 3/	2.0	14.8	12.0	13.3	20.4	17.9	15.1	13.0	10.1	7.4	5.4
External debt-to-exports ratio (in percent)	59.1	21.8	34.0	29.4	25.6	27.6	26.6	31.5	36.4	40.1	45.0
Gross external financing need (in billions of US dollars) 4/	-1.3	-1.3	-0.5	-0.9	-2.3	-1.7	-1.6	-0.9	-0.4	0.0	1.3
in percent of GDP	-10.7	-8.0	-4.4	-6.1	-12.4	-9.5	-8.1	-4.5	-2.1	0.1	5.5
Scenario with key variables at their historical averages 5/						15.5	10.6	2.9	-7.7	-20.4	-34.3
Key Macroeconomic Assumptions Underlying Baseline											
Real GDP growth (in percent)	5.2	1.0	-2.9	6.7	7.0	6.1	5.9	6.8	6.9	7.1	7.5
GDP deflator in US dollars (change in percent)	-39.9	24.4	-20.9	12.8	20.9	-7.9	0.2	-2.4	-2.2	-1.5	-0.6
Nominal external interest rate (in percent)	6.2	4.3	6.2	6.9	6.3	5.7	7.5	8.5	8.1	7.8	9.4
Growth of exports (US dollar terms, in percent)	22.5	37.6	-36.9	23.5	39.3	-4.5	6.0	-3.5	-2.6	-0.5	0.6
Growth of imports (US dollar terms, in percent)	21.3	19.5	-0.4	8.9	24.1	2.0	10.1	4.1	3.7	4.8	7.7
Current account balance, excluding interest payments	16.5	24.5	8.6	9.9	14.9	13.3	11.5	8.2	5.8	4.0	1.8
Net non-debt creating capital inflows	6.1	4.9	4.7	3.4	3.7	3.8	4.4	3.6	3.2	2.8	2.9
1/ Derived as $[r - g - r(1+g) + ea(1+r)] / (1+g+r+gr)$ times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt. 2/ The contribution from price and exchange rate changes is defined as $[-r(1+g) + ea(1+r)] / (1+g+r+gr)$ times previous period debt stock. r increases with an appreciating domestic currency ($e > 0$) and rising inflation (based on GDP deflator). 3/ For projection, line includes the impact of price and exchange rate changes. 4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period. 5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP. 6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.											

Figure 1. Gabon: External Debt Sustainability: Bound Tests 1/ 2/
(External debt in percent of GDP)

Sources: International Monetary Fund, Country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

4/ One-time real depreciation of 30 percent occurs in 2012.

Table 2. Gabon: Public Sector Debt Sustainability Framework, 2006–17
(Percent of GDP, unless otherwise indicated)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1 Baseline: Public sector debt ¹	42.1	39.4	16.7	23.2	20.3	19.0	19.2	20.6	22.7	24.8	26.0	28.4
o/w foreign-currency denominated	32.5	32.2	14.4	17.0	15.6	15.6	15.9	15.0	16.5	17.7	18.4	19.4
2 Change in public sector debt	-11.7	-2.7	-22.7	6.5	-3.0	-1.3	0.2	1.4	2.1	2.1	1.2	2.4
3 Identified debt-creating flows (4+7+12)	11.5	3.1	7.9	8.1	2.4	-3.8	-0.3	1.3	1.2	1.1	0.8	0.9
4 Primary deficit	9.2	7.8	10.5	5.9	1.8	-3.2	0.4	1.5	1.7	1.8	1.7	1.8
5 Revenue and grants	31.7	27.3	29.5	29.6	25.5	27.9	26.4	24.7	24.3	23.9	23.4	22.8
6 Primary (noninterest) expenditure	20.1	17.4	17.3	22.2	22.4	24.7	26.8	26.2	26.0	25.7	25.1	24.6
7 Automatic debt dynamics ²	2.3	-4.6	-2.6	2.2	0.6	-0.5	-0.7	-0.2	-0.5	-0.7	-0.9	-0.9
8 Contribution from interest rate/growth differential ³	2.7	-2.0	-0.5	1.4	-0.2	-0.5	-0.7	-0.2	-0.5	-0.7	-0.9	-0.9
9 Of which contribution from real interest rate	3.3	0.1	-0.2	0.9	1.2	0.8	0.3	0.9	0.8	0.8	0.7	0.9
10 Of which contribution from real GDP growth	-0.6	-2.1	-0.4	0.5	-1.4	-1.3	-1.1	-1.0	-1.3	-1.4	-1.6	-1.8
11 Contribution from exchange rate depreciation ⁴	-0.4	-2.6	-2.1	0.8	0.8	-0.7	1.5	0.3	0.0	0.1	0.1	0.1
12 Other identified debt-creating flows	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
13 Privatization receipts (negative)	0.0	-0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
14 Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
15 Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
16 Residual, including asset changes (2-3) ⁵	-23.3	-5.8	-30.6	-1.6	-5.4	-2.2	2.3	4.5	5.8	6.0	5.2	6.9
Public sector debt-to-revenue ratio ¹	132.8	144.6	56.6	78.6	79.5	68.1	72.8	83.6	93.6	103.9	111.1	124.9
Gross financing need ⁶	-3.9	-3.0	6.6	0.9	1.9	1.4	4.3	5.2	5.6	5.8	5.9	9.3
in billions of U.S. dollars	-0.4	-0.4	1.0	0.1	0.3	0.3	0.8	1.0	1.1	1.2	1.3	2.2
Scenario with key variables at their historical averages ⁷						19.0	19.2	27.5	37.8	48.3	48.3	57.6
Scenario with no policy change (constant primary balance) in 2010-17						19.0	19.5	25.0	32.4	40.1	48.2	48.8
Key Macroeconomic and Fiscal Assumptions Underlying Baseline												
Real GDP growth (percentage change)	1.2	5.6	1.0	-2.9	6.7	7.0	6.1	5.9	6.8	6.9	7.1	7.5
Average nominal interest rate on public debt (in percent) ⁸	4.7	5.6	4.8	7.0	7.3	5.4	5.2	8.0	7.5	6.9	6.4	6.9
Average real interest rate (in percent)	6.1	0.6	-0.4	5.1	5.9	4.2	2.2	5.0	4.5	3.9	3.4	3.9
Nominal appreciation (in percent)	0.9	9.1	7.0	-5.2	-4.7	5.1	-9.0	-2.2	-0.3	-0.5	-0.4	-0.5
Inflation rate	-1.4	5.0	5.3	1.9	1.4	1.3	3.0	3.0	3.0	3.0	3.0	3.0
Growth of real primary spending (deflated by GDP deflator)	2.2	89.1	0.4	24.3	7.5	18.2	15.2	3.3	6.1	5.7	4.6	5.5
Primary deficit	9.2	7.8	10.5	5.9	1.8	1.5	-1.4	-2.9	-3.2	-3.3	-3.2	-3.6
¹ Indicate coverage of public sector, e.g., general government or nonfinancial public sector. ² Derived as $[(r - p(1+g) - g + ae(1+r))/(1+g+p+gp)]$ times previous period debt ratio, with r = interest rate; p = growth rate of GDP deflator; g = real GDP growth rate; a = share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in local currency value of U.S. dollar). ³ The real interest rate contribution is derived from the denominator in footnote 2/ as $r - p(1+g)$ and the real growth contribution as $-g$. ⁴ The exchange rate contribution is derived from the numerator in footnote 2/ as $ae(1+r)$. ⁵ For projections, this line includes exchange rate changes. ⁶ Defined as public sector deficit, plus amortization of medium and long-term public sector debt, plus short-term debt at end of previous period. ⁷ The key variables include real GDP growth; real interest rate; and primary balance in percent of GDP. ⁸ Derived as nominal interest expenditure divided by previous period debt stock. ⁹ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.												

Figure 2. Gabon: Public Debt Sustainability: Bound Tests 1/
(Public debt in percent of GDP)

Sources: International Monetary Fund, Country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Seven-year historical average for the variable is also shown.

2/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and primary balance.

3/ One-time real depreciation of 30 percent and 10 percent of GDP shock to contingent liabilities occur in 2013, with real depreciation defined as nominal depreciation (measured by percentage fall in dollar value of local currency) minus domestic inflation (based on GDP deflator).

APPENDIX VII. ALTERNATIVE SCENARIO ANALYSIS

1. The authorities' limited fiscal buffers are tested under a prolonged slow global growth scenario for the period 2012–17. Under the baseline, over the medium term, oil prices are assumed to decline only moderately in real terms on the back of a tepid recovery of the world economy. Nonetheless, the October 2012 World Economic Outlook (WEO) has presented a “lower global growth” alternative scenario in which economic agents gradually realize that the potential output is lower than baseline in advanced and emerging markets. More specifically, the scenario assumes,

- a slower growth in advanced economies, which implies more subdued external prospects for emerging economies;
- a global real GDP level falling and staying below the baseline for a prolonged period, and weak global demand depresses commodity prices, and
- global oil prices decreasing by 4 percent in 2013 and, on average, 24 percent below baseline in 2014–17.

2. The alternative scenario would carry a significant financial impact on the Gabonese economy. Given the high dependence of hydrocarbon production, government revenues and foreign currency earnings would be drastically reduced (Figure). On the one hand, as Gabon has a limited fiscal cushion to address downside risks stemming from low oil prices,¹ the simulations suggest that the fall in hydrocarbon receipts could drain government savings and official international reserves in the period under consideration (2012–17). On the other hand, as the rest of the economy is not directly dependent on world demand, lower energy prices would convey negligible changes on real GDP (not shown in the Figure).

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¹ The government deposits with the BEAC (excluding cash holdings), which represent the main fiscal savings, were equivalent to 5 percent of non-oil GDP at end-2011 (or 18 percent of oil revenue).

Gabon. Prolonged Slow Global Growth Scenario, 2012–17

Source: IMF Staff estimates.

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GABON

STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

January 30, 2013

Prepared By

The African Department
(in consultation with other departments)

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- **Relations with the Fund.** Gabon has been a member of the International Monetary Fund since 1963. CEMAC member countries accepted the obligations of Article VIII in June/July 1996. The three-year SBA for about US\$118 million expired in May 2010, with only the first three reviews completed. Recurrent fiscal slippages made it difficult to sustain the Fund-supported program.
- **Relations with the World Bank.** In 2010, the World Bank signed a \$10 million service agreement with the government, which covers sectoral assistance, as well as a comprehensive growth analysis and public financial management reform.
- **Exchange rate regime:** Gabon is a member of the Central African Economic and Monetary Community (CEMAC). The common currency, the CFA franc, is pegged at the fixed rate of 655.957 CFA franc per euro. Gabon's tax on wire transfers constitutes a restriction on the making of payments and transfers for current international transactions subject to approval under Article VIII, Section 2 (a) of the Articles of Agreement.
- **Statistical Issues.** Gabon has subscribed to the General Data Dissemination System (GDDS). While data are broadly adequate for surveillance purposes, staff analysis was affected by the timeliness and coverage of fiscal data, the poor quality of balance of payments data, and the limited information on labor cost and productivity.

RELATIONS WITH THE FUND

(As of January 4, 2013)

I. Membership Status: Joined September 10, 1963 Article VIII

II. General Resources Account:	SDR Million	%Quota
<u>Quota</u>	154.30	100.00
Fund holdings of currency	153.77	99.66
Reserve Position	0.54	0.35
Holdings Exchange Rate		

III. SDR Department:	SDR Million	%Allocation
Net cumulative allocation	146.72	100.00
Holdings	132.81	90.52

IV. Outstanding Purchases and Loans: None

V. Latest Financial Arrangements:

<u>Type</u>	<u>Date of Arrangement</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR Million)</u>	<u>Amount Drawn (SDR Million)</u>
Stand-By	May 07, 2007	May 06, 2010	77.15	0.00
Stand-By	May 28, 2004	Jul 31, 2005	69.44	41.66
Stand-By	Oct 23, 2000	Apr 22, 2002	92.58	13.22

VI. Projected Payments to Fund (Expectation Basis)

(SDR Million, based on existing use of resources and present holdings of SDRs):

	<u>2010</u>	<u>2011</u>	<u>Forthcoming</u> <u>2012</u>	<u>2013</u>	<u>2014</u>
Principal					
Charges/Interest	0.11	0.06	0.06	0.06	0.06
Total	<u>0.11</u>	<u>0.06</u>	<u>0.06</u>	<u>0.06</u>	<u>0.06</u>

VII. Implementation of HIPC Initiative: Not Applicable

VIII. Implementation of Multilateral Debt Relief Initiative (MDRI): Not Applicable

IX. Safeguards Assessments:

The Bank of the Central African States (BEAC) is the regional central bank of the Central African States. The most recent safeguards assessment of the BEAC was completed on July 6, 2009. The findings of this assessment indicate that implementation of previous safeguards recommendations on financial reporting, internal audit, and internal control has been limited, and that the changing risk profile of the BEAC foreign exchange holdings requires further actions to strengthen safeguards at the BEAC. Subsequent to revelation of Paris office fraud, a series of initial measures and longer term safeguard measures were agreed between IMF and BEAC in order to continue with country programs. In December 2009, BEAC adopted an action plan with the aim of reforming its own governance and strengthening key safeguards. BEAC adopted additional measures to address the weaknesses highlighted by the first special audit. A new assessment mission of IMF Staff is tentatively planned to visit the BEAC by March 2013.

X. Exchange Rate Arrangement:

Gabon is a member of the Central African Economic and Monetary Community (CEMAC). The common currency, the CFA franc, is pegged to the Euro at a fixed rate of CFAF 655.957= €1. Gabon does not have a separate currency.

Like other members of the Central African Economic and Monetary Community (CEMAC), Gabon has accepted the obligations of Article VIII, Section 2, 3 and 4 of the IMF Articles of Agreement. Gabon levies a tax on all wire transfers, including for the making of payments and transfers for current international transactions, which gives rise to an exchange restriction subject to Fund approval under Article VIII, Section 2(a) of the Fund's Articles of Agreement.

XI. Article IV Consultations:

- (a) Gabon was on a 24-month Article IV consultation cycle while the Stand-By Arrangement was on track and has since been moved to a 12-month cycle.
- (b) The Executive Board concluded the last Article IV consultation with Gabon on February 18, 2011.

XII. FSAP Participation:

A national module for Gabon of the joint IMF/World Bank Financial Sector Assessment Program (FSAP) was completed in 2002 and discussed by the Executive Board in March 2002 (IMF Country Report No. 02/98). A regional FSAP module for the CEMAC was completed in 2006 and discussed by the Executive Board in 2006 (IMF Country Report No. 06/321).

XIII. Resident Representative:

The Fund no longer has a resident representative in Libreville and the IMF office is staffed with a local economist

XIV. Technical Assistance:**A. Central Africa Regional Technical Assistance Center (AFRITAC)**

<i>Area</i>	<i>Focus</i>	<i>Time of Delivery</i>
Public Financial Management	Program Budgeting	Oct. 2012
Public Financial Management	Strengthening Accounting Systems	Sep. 2012
Public Financial Management	Program Budgeting	Sep. 2012
Revenue administration	Improving Tax Collection	Sep. 2012
Public Financial Management	Reinforcing Public Finance	Aug. 2012
Public Financial Management	Implementing a budget by objectives	July. 2012
Customs	Strengthening Customs Administration	Apr. 2012
Revenue administration	Implementing SMEs Tax Administration	Apr. 2012
Revenue administration	Implementing Quarterly National Accounts	Jan. 2012
Public Financial Management	Training workshop on Budget Administration	Jan. 2012
Public Financial Management	Reinforcing Public Finance	Nov. 2011
Revenue Administration	Improving Tax Collection at Customs	Nov. 2011
Public Financial Management	Improving Public Expenditures	Sep. 2011
Public Financial Management	Modernizing SME Administration	Sep. 2011
Public financial management	Implementing a budget by objectives	Aug. 2011
Revenue Administration	Improving Capacity at Customs	May. 2011
Public Financial Management	Implementing a budget by objectives	Mar. 2011
Revenue administration	Assistance in reform implementation	Mar. 2011

B. Headquarters

<i>Department</i>	<i>Purpose</i>	<i>Time of Delivery</i>
FAD	Tax Administration (7 missions)	Thru 2012
STA	Implementing Quarterly National Accounts	Dec. 2012
FAD	Customs Administration (4 missions)	Thru 2012
FAD	Public Financial Management (9 missions)	Thru 2012
FAD	Public Expenditure and Financial Accountability	Nov. 2012

XV. Trade Policy:

CEMAC's average common external tariff is about 19 percent, far exceeding levels in other regional customs unions (Oliva, 2007) and has high dispersion. The maximum most favored nation tariff rate is 30 percent, 10 percentage points higher than for WAEMU. The tariff structure embraces the infant industry argument by taxing manufactures and agricultural products most. Goods produced in member countries are eligible for a zero-rate preferential tariff, but qualification is subject to problems of monitoring. The existing regime confers community origin on mining and agricultural products originating from the CEMAC region and on locally manufactured goods with a 40 percent local content. However, the poor certification quality is often rejected by other member countries (Martijn and Tsangarides, 2007).

RELATIONS WITH THE WORLD BANK

(As of January 15, 2013)

Title	Products	Provisional timing of missions	Expected delivery date
A. Mutual information on relevant work programs			
The World Bank work program in the next 12 months	World Bank advisory services are ongoing in the following areas: - Transport Sector: Preparation of concession for new port in Port Gentil, analysis of transport costs and management of road infrastructure - Public Finance Management: Improvement of the budgetary cycle, debt sustainability analysis and reform plan, analysis of the fiscal system (including marginal effective tax rate, exemptions, and processes) - Mining Sectors: Creation of a mining cadaster, review of the mining code, reduction of gas flaring, EITI application, role and structure of new mining association - Sources of growth: Revision of PPP law and value chain analyses for priority sectors	January 2013: Review meeting of annual work plan with team leaders for all activities	June 2013
	Growth and employment policy note: This note analyzes the main reasons for the weak impact of growth on employment and develops recommendations for more inclusive growth.		January 2013
	Export Diversification and Competitiveness Policy note: This note will synthesize Gabon's non-oil export potential provides sector-specific recommendations to address the challenges of export diversification.	February 2013: Field mission to carry out the analytical work	June 2013
	World Bank lending: A \$58M IBRD Loan for the Central African Regional and National Backbone project (CAB4) supporting the development of high speed	March 2013: 2 nd supervision mission	5 year project

	telecommunication infrastructure was signed in May 2012. It is expected that the Loan agreement will be effective as of February 2013.		
	IFC investments: IFC is currently considering investments in the Forestry and in the Manufacturing sectors.	Missions to be spread over CY 2013	tbd
	IFC investment climate advisory: IFC is providing technical assistance to improve the business environment in selected areas measured by the Doing Business report. Four priority areas were defined: - Business creation for foreign and domestic investors - Procedures for construction permits and access to property by creating a one-stop shop - Procedures to import and export goods - Tax incentives and tax administration (in coordination with other WB support in this area).	March–April 2013: Progress review mission	
	SME capacity building: IFC has a partnership agreement with the Banque Gabonaise de Développement (BGD) to provide support and training to SMEs.	March 2013: Official launch of the SME Toolkit website	March 2013
The IMF work program in the next 12 months	Article IV Consultation	November 2012	December 2012
B. Requests for work program inputs			
Fund request to Bank			
Bank request to Fund	Update on macroeconomic framework Article IV documents		FY13
C. Agreement on joint products and missions			
Joint products in the next 12 months	Collaboration on data on non-oil sector growth		Ongoing

STATISTICAL ISSUES

1. Data provision has some shortcomings, but is broadly adequate for surveillance. Staff's analysis is affected by shortcomings in the accuracy, reliability and adequacy of periodicity and timeliness for certain data, as well as consistency between datasets. The statistical producing agencies do not have sufficient access to source data and lack an institutional framework in which to share information and coordinate compilation efforts.
2. Gabon participates in the General Data Dissemination System (GDDS) but has not updated the metadata or plans for improvement since 2002. Except for consumer prices, the authorities do not report any real sector or government finance statistics (GFS) to STA for publication in *International Financial Statistics (IFS)* or for electronic dissemination. Detailed economic and financial statistics, including long historical time series, are published in the *Tendances de l'Économie*, issued twice a year by the General Directorate of Statistics and Economic Studies (DGSEE) of the Ministry of Economy, Trade, Industry, and Tourism. More recent sectoral developments are described in detail in the *Tableau de Bord de l'Économie*, issued quarterly by the Ministry of the Economy.

National accounts

3. Central AFRITAC (AFC) is working with authorities to incorporate the *System of National Accounts 1993* methodological recommendations, particularly in the valuation of sectoral value added at basic prices. Coverage of developments in oil and other key export sectors is based on a range of indicators that may not fully capture the profits these sectors generate. Despite recent improvements in collecting and processing oil sector statistics, there are still significant inconsistencies between national accounts and balance of payments statistics. In addition, more frequent household surveys are required to improve the quality and quantity of data on income distribution and consumption. Two AFC missions have provided technical assistance on the treatment of statistics and fiscal statements (SFS), and the implementation of Access software for the SFS compilation. Efforts are needed to establish a more consistent database. The processing of the SFS of 2007 for the compilation of the national accounts of the same year is planned to be finalized by end-2008.

Employment and unemployment

4. Data on unemployment and the total labor force are not systematically available.

Prices

5. In 2007 the authorities began publishing an improved CPI index, which covers the same basket of goods and services as the CEMAC Harmonized Consumer Price Index (HCPI) and uses a weighting scheme derived from Gabon's 2005 household expenditure survey. However, it only covers the capital city of Libreville.

Government finance statistics

6. A major shortcoming is limited institutional coverage, as social security operations are not included in the statement of operations of central or general government. Audited accounts of oil sector operations are generally available annually and sometimes quarterly, but with a significant reporting lag. Other needed improvements relate, *inter alia*, to the recording in the budget accounts of government-owned capital formation financed by oil companies and the recording of government domestic payment arrears.

Monetary statistics

7. The Bank of Central African States (BEAC) regularly reports in electronic form monthly monetary, interest rate, and exchange rate statistics for Gabon and other CEMAC member countries for publication in *IFS*, but delays occur sometimes in the submission of data. Institutional coverage of the monetary statistics for Gabon is comprehensive, but accuracy is affected by cross-border movements of currency among CEMAC member countries.

8. The BEAC started in mid-2007 a project to migrate monetary statistics of member countries of the CEMAC to the methodology in the *Monetary and Financial Statistics Manual (MFSM)*. As part of this project, a regional workshop was organized by the BEAC in December 2007 to finalize the mapping of source data from commercial banks to the *MFSM* concepts and framework. STA participated in this workshop to provide guidance and advice. The BEAC has recently submitted test monetary data for Gabon using the standardized report forms for the period January 2000–December 2007.

External public debt

9. There are comprehensive data on the stock of external public debt and its composition, as well as detailed projections on debt service due. Data are provided, usually to Fund missions, by the General Directorate of Debt (*Direction générale de la dette*) of the Ministry of Economy, Finance, Budget, and Privatization.

Balance of payments and trade statistics

10. Balance of payments statistics are compiled by the national directorate of the BEAC and the estimates are validated by staff from BEAC headquarters. Data are disseminated with considerable delay, and the latest available official statistics are for 2006. Since 1995, compilation of balance of payments statistics has conformed to the *Balance of Payments Manual, 5th edition*. Source data are collected through: (i) surveys of enterprises by the central bank (the main source of data); (ii) reports from banks and the postal administration on foreign exchange transactions of other enterprises, retailers, and private individuals; and (iii) BEAC reports on banknote movements between Gabon and other BEAC countries. External trade data are mostly based on estimates, which are not cross-checked with customs data. Data on other items of the current account are not very reliable or accurate due to low response rates to enterprise surveys, despite partial correction through adjustments. Foreign direct investment in the financial account is likely

to be underestimated owing to insufficient detail in the oil sector survey. The magnitude and detailed breakdown of private capital flows, particularly short term, suffer because data are not comprehensive.

Gabon: Table of Common Indicators Required for Surveillance

(As of January 15, 2013)

	Date of latest observation	Date received	Frequency of data ⁷	Frequency of reporting ⁷	Frequency of publication ⁷
Exchange Rates	Dec. 2012	Dec. 2012	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	Oct. 2012	Jan. 2013	M	M	M
Reserve/Base Money	Oct. 2012	Jan. 2013	M	M	M
Broad Money	Oct. 2012	Jan. 2013	M	M	M
Central Bank Balance Sheet	Oct. 2012	Jan. 2013	M	M	M
Consolidated Balance Sheet of the Banking System	Oct. 2012	Jan. 2013	M	M	M
Interest Rates ²	Dec. 2012	Dec. 2012	M	M	M
Consumer Price Index	Nov. 2012	Jan. 2013	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴	June. 2012	Dec. 2012	M	Q	N/A
Revenue, Expenditure, Balance and Composition of Financing ³ – Central Government	June. 2012	Dec. 2012	M	Q	N/A
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	Dec. 2011	Dec. 2012	Q	Q	N/A
External Current Account Balance	Dec. 2011	Dec. 2012	A	I	A
Exports and Imports of Goods and Services	Dec. 2011	Dec. 2012	M	M	I
GDP/GNP	2008	Dec. 2012	A	I	A
Gross External Debt	Dec. 2011	Dec. 2012	Q	I	I
International Investment Position ⁶	N/A	N/A	N/A	N/A	N/A

¹Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.²Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.³Foreign, domestic bank, and domestic nonbank financing.⁴The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.⁵Including currency and maturity composition.⁶Includes external gross financial asset and liability positions vis-à-vis nonresidents.⁷Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A); Irregular (I); Not Available (NA).

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INTERNATIONAL MONETARY FUND

Public Information Notice

EXTERNAL
RELATIONS
DEPARTMENT

Public Information Notice (PIN) No. 13/20

FOR IMMEDIATE RELEASE

February 19, 2013

International Monetary Fund

700 19th Street, NW

Washington, D. C. 20431 USA

IMF Executive Board Concludes 2012 Article IV Consultation with Gabon

On February 13, 2013, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Gabon.¹

Background

The authorities have launched an ambitious public investment and reform program to transform Gabon into a diversified emerging market economy by 2025. Although current economic conditions remain supportive, a critical issue ahead is how to use oil and mineral resources efficiently to support inclusive growth. While Gabon has the fourth highest level of income per capita in Sub-Saharan Africa, poverty and unemployment remain widespread, and the economy is heavily dependent on oil, which makes it vulnerable to volatile oil prices.

Gabon's recent economic performance has been robust. Partly driven by a scaling-up of public investment, the non-oil economy has performed well, in particular mining, wood processing, and construction, helping to boost real gross domestic product (GDP) growth to

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¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.imf.org/external/np/sec/misc/qualifiers.htm>.

7 percent in 2010–11. On the other hand, oil production in maturing fields has been on a declining trend. In 2012, real GDP is projected to rise at about 6 percent, with the continued support of large public investment. Inflation remains under control within the Central African Economic and Monetary Community convergence criteria, at around 3 percent for the annual average, notwithstanding a sharp increase in food prices in mid-2012. Bank deposits and private credit grew rapidly in 2011–12, but from a low base, and banks remain highly liquid.

The external position remained strong, with high oil prices and increasing manganese exports contributing to a large current account surplus while imports associated with the scaled-up public investment and the African Cup of Nations soccer tournament rose rapidly. In 2011, the current account surplus reached its highest level since 2008, at 14 percent of GDP, and is projected to decline only slightly in 2012 as hydrocarbons and manganese exports are expected to falter a little. With large repatriation of profits by foreign oil companies offsetting the current account surplus to a large extent, official reserves have increased only moderately in 2011–12. The real effective exchange rate has remained broadly stable, despite significantly improved terms of trade in 2010–11.

The fiscal stance has been expansionary since 2009 and the overall fiscal balance would register a deficit in 2012 for the first time since 2000. While oil revenues expanded by 80 percent between 2009 and 2012, public expenditure increased by 70 percent over the same period. In particular, capital spending tripled, reflecting the public investment associated with the economic development plan and the infrastructure requirements for hosting the African Cup of Nations. Current expenditures have also been boosted by an increase in the wage bill and subsidies for petroleum products. As a result, the non-oil deficit is projected to peak at 27 percent of non-oil GDP in 2012.

Beyond 2012, the outlook is favorable but subject to risks. Large public investment will continue to improve infrastructures and the authorities plan to take swift actions to improve the business environment and the labor market. Non-oil growth is thus expected to remain robust, as new sources of growth emerge, including in Special Economic Zones. As oil production in mature fields will continue to decline until new fields can be explored, the current account surplus will deteriorate over the medium term, ending in broad balance by 2017. The budget will register small deficits over the next five years as the government executes its investment program while fiscal oil receipts would decline. The foremost risk to the outlook is a possible global slowdown that could lead to a prolonged decline in oil and

manganese prices, which the authorities would face with limited fiscal buffers. Moreover, the success of the authorities' strategy to transform Gabon into an emerging market heavily depends on the efficiency of public investment and effective reforms to unlock the potential for private sector development and economic diversification.

Executive Board Assessment

Executive Directors welcomed Gabon's robust economic performance in recent years, driven by high oil prices and public investment. However, despite strong economic growth, poverty remains widespread and unemployment is high. Against this backdrop, Directors commended the launch of a long-term development plan to transform Gabon into a diversified emerging market economy. They urged ambitious policies and reforms to support more inclusive growth and build adequate policy buffers against oil price volatility.

While recognizing the need for higher investment and social spending, Directors encouraged a more prudent fiscal stance and a measured pace of increase in public investment. This is important to safeguard medium-term fiscal sustainability and to ensure that public investment spending does not outstrip administrative and absorptive capacities. Directors called for restraint on wage bill growth, lower and better targeted subsidies for oil products, and an expansion in the non-oil tax base. They saw merit in a simple fiscal oil price rule to help anchor spending. Directors also urged continued efforts to strengthen investment planning and execution capacities, improve the quality of investment spending, increase fiscal transparency, and enhance public finance management in order to ensure the efficient use of oil resources.

Directors concurred that comprehensive reforms are needed to remove structural constraints on inclusive and diversified growth and private sector development, which is key to job creation and poverty reduction. Particular attention should be given to enhancing the business environment to spur private investment. Education and labor market reforms are also vital to better match labor supply and demand.

Directors underscored the importance of preserving financial stability and deepening financial intermediation. They encouraged the authorities to improve the institutional environment for access to credit; complete the restructuring of two distressed public banks; and strengthen financial regulation and supervision, including the regime against money laundering and terrorism financing.

Directors encouraged development of a statistical action plan to improve the quality and timeliness of economic and financial data.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Gabon: Selected Economic Indicators, 2008–17

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
				Est.			Projections			
	(Annual percent change, unless otherwise indicated)									
Real sector										
GDP at constant prices	1.0	-2.9	6.7	7.0	6.1	5.9	6.8	6.9	7.1	7.5
Oil	-0.9	-3.7	5.9	-2.4	0.8	0.3	-0.6	-0.7	-0.6	-0.6
Non-oil	2.1	-2.4	7.2	12.1	8.7	8.3	9.8	9.7	9.7	9.9
GDP deflator	16.2	-6.6	18.3	15.1	1.2	2.4	-2.1	-1.7	-1.0	-0.6
Oil	15.4	-3.5	39.3	35.9	0.3	3.6	-4.4	-3.5	-2.8	-2.2
Consumer prices										
Yearly average	5.3	1.9	1.4	1.3	3.0	3.0	3.0	3.0	3.0	3.0
End of period	5.6	0.9	0.7	2.3	3.1	3.0	3.0	3.0	3.0	3.0
External sector										
Exports, f.o.b.	37.2	-9.1	26.0	40.2	-5.1	5.8	-4.0	-3.2	-1.0	0.4
Imports, f.o.b.	8.1	2.8	18.1	24.3	3.6	8.8	2.1	1.2	3.6	7.9
Terms of trade (deterioration= –)	17.6	-6.8	16.7	24.9	-8.2	2.6	-2.3	-2.4	-1.8	-3.2
Central government finance										
Total revenue	27.0	-8.9	8.9	34.6	3.1	0.0	3.1	3.2	4.0	4.0
Oil revenue	42.0	-8.5	17.8	39.2	6.4	-3.5	-4.3	-3.7	-4.6	-2.6
Total expenditure	13.7	-1.4	26.6	33.3	17.2	10.9	2.8	4.0	4.4	6.1
	(Percent of GDP, unless otherwise indicated)									
Non-oil primary balance (in non-oil GDP)	-2.5	-1.7	-8.0	-2.1	-26.4	-25.2	-22.2	-9.8	-17.1	-15.4
Overall balance (commitment basis)	10.5	5.9	1.8	2.3	-1.0	-2.9	-3.2	-3.3	-3.2	-3.6
Net domestic financing	7.4	-1.4	-2.4	-2.5	2.9	2.7	1.6	1.9	2.1	3.0
Net external financing	-3.8	-2.2	0.6	1.9	-0.6	2.2	3.3	3.1	2.4	2.0
External public debt (including to the Fund)	13.9	17.8	15.8	14.8	15.5	15.0	16.4	17.7	18.4	19.4
Total public debt (Percent of GDP)	16.0	23.9	20.4	18.2	18.8	20.6	22.7	24.8	25.9	28.4
	(Percent Change, unless otherwise indicated)									
Money and credit										
Credit to the economy	6.0	-7.9	1.9	42.0	24.4	26.0	...	...	...	...
Broad money	8.8	2.2	19.2	26.5	12.5	11.6	...	...	...	...
Velocity ratio of NOGDP over broad money	3.3	3.0	3.1	2.8	2.8	2.8	...	...	...	...
	(Percent of GDP, unless otherwise indicated)									
Gross national savings	47.7	38.4	38.9	45.0	44.1	42.7	40.1	38.0	36.4	34.4
Gross fixed investment	22.0	27.1	30.0	30.8	31.7	32.4	33.3	33.6	33.8	34.2
Current account balance	23.3	7.5	8.9	14.1	12.4	10.4	6.9	4.5	2.7	0.2
	(CFA francs billion, unless otherwise indicated)									
Memorandum items										
Nominal GDP	7,045	5,702	7,201	8,867	9,527	10,327	10,805	11,350	12,036	12,856
Nominal non-oil GDP	3,731	3,475	4,238	4,936	5,553	6,200	6,882	7,592	8,406	9,328
National Currency per U.S. Dollar (Average)	448	471	531	534	536	...	...	...	...	...

Sources: Gabonese authorities and IMF staff estimates and projections.

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Statement by Mr. Assimaidou on Gabon

February 13, 2013

On behalf of my authorities, I would like to express my appreciation to the Executive Board, Management, and staff for their continued advice and assistance to Gabon. My authorities found very fruitful the discussions held with staff during their visit to Gabon in November 2012. My authorities appreciate staff recommendations and inputs in their economic development plan.

Over the past three years, my authorities have been implementing a large economic development plan, *Plan Stratégique Gabon Emergent* (PSGE), aimed at transforming the oil-dependent Gabonese economy into an emergent economy by 2025. This economic plan is underpinned by (i) a vast public investment program (PIP), which focuses on addressing Gabon's huge physical and digital infrastructure gaps, notably in the energy, telecoms, transportation and social sectors, and (ii) a set of institutional and structural reforms covering a wide range of areas, including public administration, public financial management and business environment. The PGSE is offering significant investment opportunities for international investors, many of whom are now present in Gabon, notably in the construction, energy, housing, industry and mining sectors.

Recent developments

The implementation of the PSGE has boosted **economic activity** in Gabon. Real GDP grew at an average rate of more than 6 percent over the period 2010-2012, driven by high public investment spending. Contribution to growth essentially came from the non-oil sector with the mining, construction and wood-processing sectors spearheading non-oil economic growth. Production in the oil sector remained broadly stable, owing to sustained efforts by oil companies to optimize production in existing fields. The current account surplus exceeded 10 percent of GDP on average and international reserves increased, reflecting favorable international oil price developments. Inflation increased in 2012 but remained below the regional convergence criterion of 3 percent.

Higher oil prices also helped **fiscal balances** which register surpluses in 2010 and 2011, despite the increase in total spending in that period, including a trebling of public investment spending. In 2012, the fiscal balance is projected to turn into a deficit due to a still high public investment spending and higher current expenditures, reflecting an expansion of social expenditures. Public debt ratio remained low at 18.8 percent of GDP in 2012, well below the regional convergence criteria of 70 percent and still below the country's own debt ratio ceiling of 35 percent set in the debt management strategy adopted in 2011.

As regards **fiscal reforms**, the reform of the public financial management framework is advancing well. In particular, the preparatory work to introduce by 2015 the new budgeting framework, Budget by Program Objectives, as required by a CEMAC regional directive, is

progressing as scheduled, with the assistance of the Fund. A pilot phase of the implementation of the new budgeting framework is underway in four ministries: budget, economy, education and energy. As part of the budget reform, the number of procedures in the expenditure process has been halved. The selection, preparation, execution and monitoring of public investment projects are being strengthened with the assistance of foreign technical expertise.

On the **revenue** side, the reform of the tax administration is also proceeding well with the assistance of the Fund. A component of this reform concerns the strengthening of SMEs tax administration. Oil revenue management has been strengthened with the revision of the legal framework for the sovereign wealth fund, to make it more consistent with Santiago Principles. Transparency in the oil revenue management was improved with the publication of annual EITI reports for the years 2007 to 2010.

The Gabonese **banking sector** is well-capitalized, liquid and profitable. As the result of the buoyant economic activity, credit to private sector picked up but remains highly concentrated in a few sectors such as oil, telecoms and construction. The ratio of NPLs to total loans is low at 4.4 percent. The restructuring of two small banks experiencing financial difficulties and high NPLs is underway, in line with the recommendations of the regional banking supervision commission (COBAC).

The **business environment** is being improved. In particular, my authorities are undertaking a reform of the land administration and regulatory framework. They believe that such a reform is crucial to support economic diversification, notably for the purpose of developing a sustainable housing sector and deepening the financial sector. As part of this reform, the number of procedures to obtain a construction permit has been reduced from 134 to 7. In order to increase the country's attractiveness as destination for FDI, a law on public-private partnerships has been adopted, existing sectoral codes are being amended, and master plans are being developed for other sectors. My authorities are pursuing the strengthening of institutional framework dedicated to private sector development, with the restructuring of the chamber of commerce and the creation of an enterprise development agency for SMEs.

My authorities believe that a successful economic diversification will bring about employment opportunities and contribute to reduce poverty. Aware of the **labor skill mismatch**, my authorities have taken measures to address it. In particular, they are upgrading some existing professional institutes and have set up, with the collaboration of the private sector, new professional training schools in oil and mining. They plan to establish another school to train specialized labor for construction. In the meantime, they have exerted flexibility in the application of labor regulations to allow greater hiring of foreign workers, notably in the agriculture sector. They have also reformed the scholarship program to align it with the objectives of the PGSE.

Program for the medium-term

My authorities remain resolved to achieve a **sustainable economic development** through an efficient use of natural resources that will benefit the entire population while preserving the environment. They continue to believe that the focus on developing infrastructure remains warranted as it is critical to improve the competitiveness of the non-oil economy, support economic diversification, create employment and increase the country's attractiveness for FDI. Most of the major infrastructure projects currently underway are expected to be completed by 2017. They will maintain reform momentum to increase growth potential and social inclusion.

As experience is gained in the implementation of the plan, actions are taken to review its content in order to ensure its relevance and feasibility. In particular, a new management team has been appointed at the helm of the national agency for major public works (ANGT), which is tasked with the planning, management, and implementation of large public infrastructure projects. The new management team is reviewing the list of investment projects, to ensure that they yield high return and are of high quality, and to make them consistent with the country's absorptive capacity and financial constraints for the period ahead.

In that context, Gabon's medium-term **economic outlook** remains bright, as the implementation of the PGSE will continue to support economic activity. Real GDP growth is expected to remain high at more than 6 percent over the next five years, despite an anticipated decline in oil production. The current account balance could deteriorate on account of projected decline in oil exports and lower oil prices. My authorities concur with staff's assessment of risks to this economic outlook and acknowledge the policy challenges going forward in the implementation of the economic program should those risks materialize.

My authorities remain committed to a prudent **fiscal policy** that will preserve the implementation of the investment program from oil price volatility, while ensuring medium-term fiscal sustainability and continuous compliance with CEMAC fiscal convergence criteria. They particularly agree on the need to avoid a procyclical fiscal policy which will hamper a smooth implementation of the strategic development plan. Staff's recommendations on the need to anchor fiscal policy and increase existing fiscal buffers were timely and very much appreciated, and are being carefully examined. My authorities stress that a fiscal anchor should adequately balance the needs for increasing savings for risk management purposes with those to address pressing infrastructure and social gaps.

As staff indicated, fiscal stance will remain expansionary over the medium-term reflecting sustained high public investment spending in the context of the PGSE. My authorities believe that their own revenues would cover their budgetary expenditures for the period ahead. That said, they took note of staff's projections of continuous fiscal deficits over the next five years starting in 2013 while pointing that they could tap into international markets to finance them without threatening debt sustainability. In the meantime, should adverse oil price shock materialize, my authorities will postpone the launch of new investment projects.

Fiscal reforms will be pursued, with the assistance of international organizations. In particular, they will pursue the reform of the public administration and notably the public workforce management. My authorities welcome the report of the World Bank Public Expenditure Review, whose recommendations will be helpful in strengthening the PFM reform underway. On tax exemptions granted in the context of special economic zones (SEZ), my authorities continue to believe that the impact of the SEZs on growth and fiscal revenue will outweigh the corresponding tax expenditures. As regards oil subsidies, my authorities are also examining staff's recommendations and would very much appreciate additional insight following the recent FAD study on the subject.

My authorities will pursue the improvement of the **business environment**, with the assistance of IFC, and continue to boost human capital and address the labor skill mismatch through the reform of the education system and the institutional and regulatory framework for the labor market. Likewise, the development of the financial sector will help to increase financial intermediation and facilitate access by SMEs while preserving compliance with prudential regulations. My authorities will also continue to improve the production and timeliness of statistical data.

As regards the **tax on wire transfers**, my authorities believe that this tax does not hamper cash transfers and is consistent with proposals in the international arena to tax capital flows. Furthermore, the removal of this tax remains a politically sensitive issue as the proceeds of this tax aliment the health insurance fund.

Conclusion

To conclude, the implementation of the economic development plan boosted economic activity in Gabon against the backdrop of favorable international oil price developments. Going forward, my authorities will ensure the implementation of the plan remains sound, well-sequenced and cost-efficient. They are committed to pursue prudent macroeconomic policies and structural reforms to reduce risks to the smooth execution of the investment program underpinning the development plan and achieve a more socially inclusive economic growth. They continue to count on the technical assistance of the Fund and other international organizations in their development endeavors.