Statement by Mr. Sembene Executive Director and Mr. Nguema-Affane Senior Advisor to the Executive Director on Gabon
December 18, 2017

We would like to thank staff for their productive engagement with the Gabonese authorities and for the informative report. The authorities are appreciative of Fund's support to Gabon as they implement their Economic Recovery Program (PRE) to restore macroeconomic and external stability in the face of a challenging environment.

The Gabonese authorities followed through on their commitment to adjust policies in response to the recent oil price shock. As a result, end-June 2017 performance under the Extended Fund Facility (EFF) arrangement has been satisfactory. Going forward they remain committed to achieving the objectives of their program. In this light, we would appreciate Directors' favorable consideration of the authorities' request for the completion of the first review under the EFF.

Recent Developments and Performance Under the EFF

Economic developments were in line with expectations under the Fund-supported program. The projected decline in oil output was larger than expected during the first six months of the year, owing to the aging of mature fields, the impact of the production cut decided at the OPEC level and social unrest. However, although economic activity in a few sectors has remained moderate, production has picked up in many export-oriented sectors, thanks to an improvement in the terms of trade and the coming on stream of some long-term projects. Inflation increased from 2.1 percent in December 2016 to 3.6 percent in August 2017, reflecting the impact of the removal of some petroleum subsidies. The current account deficit narrowed in the first half of 2017, as imports contracted with lower domestic demand, and exports grew strongly on the back of higher commodity export volumes and prices. Gabon's reserves represented one and a half months in June 2017 but stabilized in recent months.

Fiscal performance at end-June 2017 has been better than expected. The fiscal deficit amounted to 0.5 percent of GDP well below the program objective of 2.6 percent, due to higher oil revenue, a tighter control of non-wage spending and slower rate of execution of capital spending. Liquidity shortages occurred as external budget support occurred late in

2017, and led to the accumulation of arrears during the period under review. Nevertheless, repayment of domestic arrears has started, consistent with the arrears clearance strategy. Borrowing remained under control despite the tight cashflow position, and public debt at the end of 2017 is projected to amount to 59 percent of GDP, compared to a forecast of 64.7 percent.

Domestic revenue mobilization efforts and public finance management reforms continued in line with program commitments. These include the reduction in the number of tax-exempt products and the implementation of CEMAC tariffs which put an end to reduced rates and exemptions. With the support of the World Bank, tax expenditures have been identified and their impact on VAT, corporate taxes and registration fees has been assessed. To improve tax compliance and promote electronic payments, the authorities introduced electronic tax filing, which is increasingly used by small and medium-sized businesses. The Public Procurement Code has also been amended to transform the Public Procurement Regulatory Agency into a Public Acquisition Regulatory Agency, with additional responsibilities over the control and regulation of offers under public-private partnerships (PPP).

The banking sector remains generally sound. The solvency of banks improved from 13.1 percent in 2016 to 15.2 percent at end-August 2017 (excluding the three state-owned banks), thanks to a rebound in profits. However, the health of the banking system is affected by the general slowdown in economic activity and delays in the settlement of domestic arrears. During the first months of 2017, deposits and loans decreased, reflecting a further deterioration of the banks' portfolios.

There was progress made in implementing business environment reforms and policies to promote economic diversification progressed. Several large projects have been recently completed and are now operational, which bodes well for the country’s competitiveness.

Performance under the EFF has been broadly satisfactory. All performance criteria have been met, except for the criterion on the non-accumulation of new external arrears. Likewise, all indicative targets (ITs) were met, except the one related to social spending at end-June 2017. Four out of five structural benchmarks initially planned for the June-October period were also met. As staff indicate in the report, the IT on social spending was missed due to delays in foreign-financed investment projects in education but spending accelerated in the second half of 2017. To strengthen the monitoring and transparency of social spending, the quarterly reports on budget execution to be issued by the authorities will include information on expenditure in social sectors.

Outlook and policies for 2017 and beyond

Despite positive developments in the non-oil sector, growth projections for 2017 has been revised slightly downward from 1.0 percent to 0.8 percent as oil production is now expected to be lower than initially projected. Growth is expected to rebound in 2018 to reach 2.7 percent, supported by higher oil production, and increased dynamism in mining, agricultural and transportation sectors. Growth should continue to strengthen over the medium term, notably benefitting from sustained FDI.

Against this backdrop, the Gabonese authorities remain strongly committed to the implementation of their PRE in the context of the extended arrangement under the EFF, as laid out in their MEFP. The staff report underscores potential risks to the successful implementation of the program, including the delays in external financing disbursement and the implementation of structural reforms. The authorities will remain vigilant to ensure these would not undermine the success of their fiscal consolidation plans which are the cornerstone of the program. Similarly continued and timely external assistance will be critical to the success of the program.

The authorities are committed to achieving a fiscal surplus by the end of the program in 2020 and firmly put public debt on a downward path. The fiscal deficit is projected to decline from 6.6 percent of GDP in 2016 to 3.6 percent in 2017, as a result of continued tighter control of non-wage current spending and lower public investment amid declining non-oil revenue. External financing will also be critical, including from the country's partners, and the Fund in particular. In 2018, the authorities will pursue fiscal consolidation efforts through an intensification of the mobilization of non-oil revenues and expenditure control. The 2018 budget submitted to the Parliament is consistent with the program and targets a fiscal deficit of 2.3 percent of GDP. The authorities will pursue a timely clearance of domestic arrears while avoiding accumulation of new arrears.

The 2018 budget encompasses numerous measures aimed at containing current spending, and strengthening cashflow management. In particular, the reduction and control of the wage bill will continue, with a freeze on recruitment in all but priority social sectors. The implementation of the new procedure for the execution of expenditures that was adopted in May 2019 will be extended to limit the use of exceptional procedures and prevent the occurrence of new arrears. The authorities will press ahead with public finance management reforms. The performance of public procurement will thus be enhanced through greater transparency of the procedures used to ensure efficiency of public investment.

To further increase mobilization of non-oil revenues, the exemptions not provided for under the law will be abolished. The prevention, detection and treatment of fraudulent VAT cases will be strengthened. Work for the establishment of the Gabon Revenue Authority (*Office Gabonais des Recettes*, OGR) will continue, with the goal of launching its activities in January 2019. The financial supervision of state-owned enterprises (SOEs) and government agencies will continue.

As regard cashflow management, a number of measures are planned, including the reactivation of the Treasury Committee, the expansion of coverage of the Treasury single account, and the setup of an escrow account at BEAC for VAT credit refunds. The authorities will publish quarterly reports on budget execution, as requested by the organic budget law.

The authorities are determined to preserve financial sector stability. In this respect, recent efforts to strengthen legal and supervisory frameworks will be pursued. The authorities are committed to improving communication about their plans to gradually clear domestic arrears, and reduce NPLs. They will continue to work on the resolution of distressed public banks for which a strategy was prepared in July 2017. In this endeavor, the authorities will aim to minimize fiscal costs and considering potential impact on financial inclusion objectives.

The authorities will pursue structural reforms aimed at bolstering competitiveness and setting the basis for a strong and durable recovery. They are committed to lifting obstacles to increased FDI and private sector development, including by advancing reform measures that facilitate access to land titles and the establishment of public private partnerships (PPPs), streamlining procedures for building permits, and strengthening the quality of statistics. They will ensure the full operationalization of the High-Level Council for Investment (HCI) tasked with supporting a more active dialogue between the national authorities and the private sector on strategic reforms related to the business climate.

Conclusion

The Gabonese authorities continue to implement prudent policies to adjust to the challenging domestic and external environment. Coupled with efforts being pursued at the regional level, they are optimistic about the prospects for restoring macroeconomic and external stability. The performance of the Fund supported program has been satisfactory so far and the authorities remain committed to achieving the objectives of the program. Fund’s continued support in this regard is greatly appreciated.