

economic conditions, provide policymakers with precautionary motives for balancing the political considerations for gradualism against economic arguments for accelerating fiscal adjustment and transferring a larger portion of oil wealth to future generations. For instance, a reversal of real oil prices to the 2000–05 average of \$30 per barrel of oil would reduce the permanently sustainable deficit to 3¼ percent of non-oil GDP.

A choice for the future

At this critical juncture in Gabon's history, oil prices are high, and the authorities have a choice to make between a voluntary, gradual policy adjustment toward a permanently sustainable fiscal policy stance and a continuation of current policies until the decline in oil production (or unexpectedly falling prices) imposes a large and rapid contraction. If Gabon elects to pursue a proactive adjustment, that process should be accompanied by improve-

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ments in the quality of public expenditure so that private investment is crowded in. Enhanced public financial management would help offset the costs of fiscal adjustments while providing assurances that government spending (including investment) can generate adequate growth and social pay-offs and help attain Gabon's socioeconomic development objectives. The country's most disadvantaged segments, in particular, stand to benefit from such steps. ■

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Gabon needs to reduce its dependence on oil

In 2005, economic growth in Gabon picked up to almost 3 percent and inflation remained close to zero. Non-oil growth, led by rising timber processing, manganese production, and the services sector, reached 4½ percent. Meanwhile, buoyant international oil prices resulted in continued large balance of payments and fiscal surpluses, allowing a reduction in external debt to 39 percent of GDP at end-2005, the IMF said in its latest economic review of the country.

However, oil reserves are expected to be exhausted in about 30 years, and Gabon will need to reduce its dependence on oil over the medium term.

The IMF Executive Board noted that Gabon's key policy challenge is to strike a balance between preparing for the exhaustion of oil reserves by raising public savings and dealing with continued pressures for public spending. Most Directors called for an immediate fiscal adjustment

that would make significant progress toward a fiscal position that is sustainable over the medium term.

The Directors also underscored the importance of strengthening public expenditure management and, toward that end, called for a more effective prioritization of the public investment program, stronger budget execution and monitoring, improved transparency of the budget—notably of oil revenue—and greater efficiency of the tax system through a broadening of the non-oil revenue base. They also pointed out that costly implicit subsidies on petroleum products that benefited primarily higher-income households were growing rapidly. They encouraged the authorities to reflect these subsidies fully in the government budget and to gradually adjust retail prices toward import parity levels, with well-targeted assistance to the poor.

The Directors commended the authorities for their Growth and Poverty Reduction Strategy Paper but underscored the need to formulate concrete poverty-reducing programs and accelerate the structural reform agenda to stimulate higher growth. In this context, they emphasized the importance of improving the investment climate to foster private sector development. The Directors also noted that further trade liberalization would improve Gabon's competitiveness, and they urged the authorities to take a leading role in regional discussions with the Economic and Monetary Community of Central Africa in this area. ■

| Gabon | 2003 | 2004 | Prel. 2005 | Proj. 2006 |
|---|------|------|---------------|---------------|
| (annual percent change, unless otherwise indicated) | | | | |
| Real GDP | 2.4 | 1.4 | 2.9 | 3.0 |
| Real non-oil GDP | 0.8 | 2.3 | 4.4 | 3.6 |
| Consumer prices (annual average) | 2.1 | 0.4 | 0.0 | 1.0 |
| Non-oil primary balance (percent of non-oil GDP) | -8.2 | -7.7 | -12.1 | -8.9 |
| External public debt (percent of GDP) | 55.9 | 49.6 | 39.2 | 31.8 |
| Data: Gabonese authorities and IMF staff estimates and projections. | | | | |