Euler Hermes Economic Research

Country Report

Gabon

Strong non-oil fundamentals drive growth

General Information

GDP	USD18.661bn (World ranking 106, World Bank 2012)
Population	1.63 million (World ranking 151, World Bank 2012)
Form of state	Multiparty Presidential Republic
Head of government	Ali Ben BONGO Ondimba
Next elections	2016, presidential

Strengths

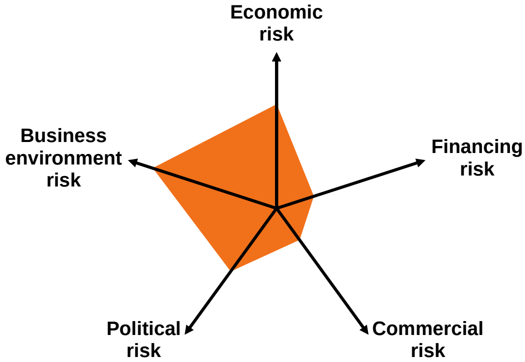
- Relatively stable political environment.
- Good natural resource base, with Sub-Saharan Africa's fourth largest oil reserves & second largest timber producer.
- Fiscal and current accounts record surpluses or small and manageable deficits.
- Upper middle income classification.
- Foreign exchange reserves currently cover over five months of imports.
- Membership of the CFA franc zone provides a relatively stable background of monetary policy and it significantly reduces exchange rate and transfer risk.

Weaknesses

- Despite being upper middle class status, levels of income inequality and poverty are sources of potential social discord.
- Lack of significant economic diversification results in high vulnerability to external shocks, especially oil price volatilities.
- Economic reform agenda can be slow in implementation.
- Infrastructural impediments and a still difficult business environment limit economic growth potential.
- Small and vulnerable banking sector.
- High perceptions of corruption and of weak judicial oversight.
- Delisted by the Extractive Industries Transparency Initiative in 2013.

Country Rating

C3



Source: Euler Hermes

Trade structure

By destination/origin (% of total)

Exports		Rank		Imports
United States	36%	1	29%	France
China	16%	2	13%	China
France	7%	3	10%	United States
Trinidad and Tobago	6%	4	6%	Belgium
Spain	5%	5	4%	Cameroon

By product (% of total)

Exports		Rank		Imports
Petroleum and related products	79%	1	8%	Industrial machinery and parts
Cork and wood	9%	2	8%	Specialised machinery
Metalliferous ores and metal scrap	6%	3	8%	Road vehicles
Cork and wood manufactures (excluding furniture)	2%	4	7%	Iron and steel
Other transport equipment	2%	5	7%	Other transport equipment

Source: UNCTAD (2012)

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Economic Overview

Oil economy but diversification...

Although there is an active strategy of economic diversification away from the oil sector, hydrocarbons still account for over 75% of exports, 55% of government revenues and 45% of GDP. Gabon has dwindling known reserves of crude oil, which at current rates of extraction (0.1% of world production) will provide a further 23 years of output. Key risks include a protracted period of low oil prices and labour union disruptions to oil output. These may become more evident as the 2016 elections draw nearer and unions try and exert pressure to increase benefits. The oil sector remains important, even though output peaked in 1997, but non-oil growth is now more dynamic (including forestry, mining and telecommunications). In addition, the government is actively seeking further diversification, partly through high state expenditure to improve infrastructure.

...and non-oil sectors drive GDP growth

The non-oil sector is reliant on other primary industries, particularly mining (manganese, 80% of non-oil exports) and agriculture (timber, 15% of non-oil exports). However, the economy has still managed to register annual GDP growth of +5% each year since 2010 (-2.8% in 2009).

The outlook for economic growth depends partly on the success of the policy of diversification away from oil and partly (particularly in the short term) on global demand and prices for that commodity. The Belinga iron ore deposit is one of the largest relatively unexploited reserves in the world (estimated 1 billion tonnes) and the country seeks to be the region's largest producer of manganese. Accordingly, a weakening oil sector will be countered by increasing development of the non-oil sectors.

Assuming stability and security are maintained at current levels, EH expects GDP growth of +5.5% in 2014 and +6% in 2015, compared with a ten-year annual average up to end-2013 of +3.6%.

Inflationary pressures are largely contained but with some upward movement expected...

Inflationary pressures are not as evident as elsewhere in Sub-Saharan Africa (see chart), partly reflecting the regional central bank's ability to maintain a stable monetary background. EH expects the official rate of inflation will remain around 3% at end-2014 (as in 2013) but some upward pressures are expected to emerge in 2015, with inflation averaging around 4.5% in that year.

...but public finances have regional support

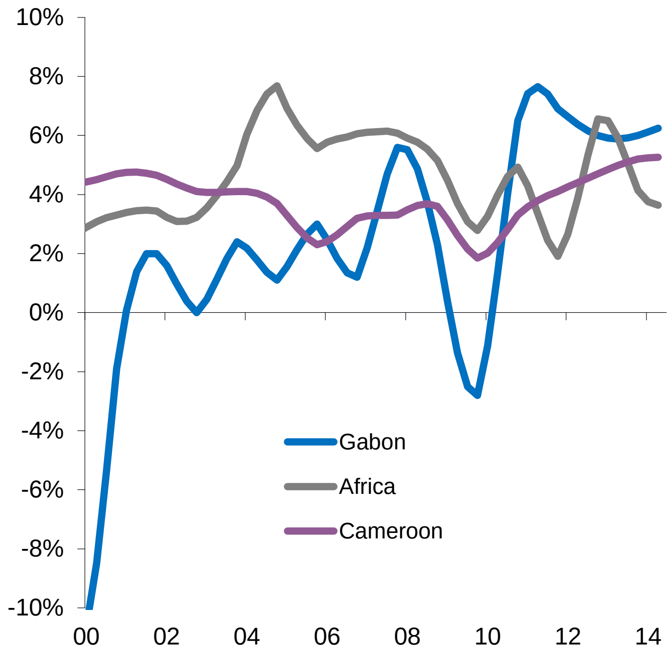
Gabon is a member of the Communauté Economique et Monétaire de l'Afrique Centrale (CEMAC) and of the Communauté Financière Africaine (CFA) franc zone. The central bank is the regional Banque des Etats de l'Afrique Centrale (BEAC). Membership of the CFA franc zone ensured generally modest inflation in recent years and this is forecast to continue in the short- to medium-term as the monetary policy of the BEAC is likely to remain sound and EH expects the CFA franc's peg to the euro, at a fixed rate of CFA655.96:EUR1, is unlikely to change in the period through to end-2015. Moreover, membership of the CFA franc zone also provides low exchange rate and transfer risk. In addition, France retains strong links with Gabon and is likely to provide assistance in the event of a financial crisis.

Key economic forecasts

	2012	2013	2014f	2015f
GDP growth (% change)	5.5	6.5	5.5	6.0
Inflation (%, end-year)	2.2	3.3	3.3	5.6
Fiscal balance (% of GDP)	0.3	-0.3	0.0	-0.1
Public debt (% of GDP)	n.a.	n.a.	n.a.	n.a.
Current account (% of GDP)	3.6	1.2	-0.3	1.5
External debt (% of GDP)	11.3	10.0	9.0	8.6

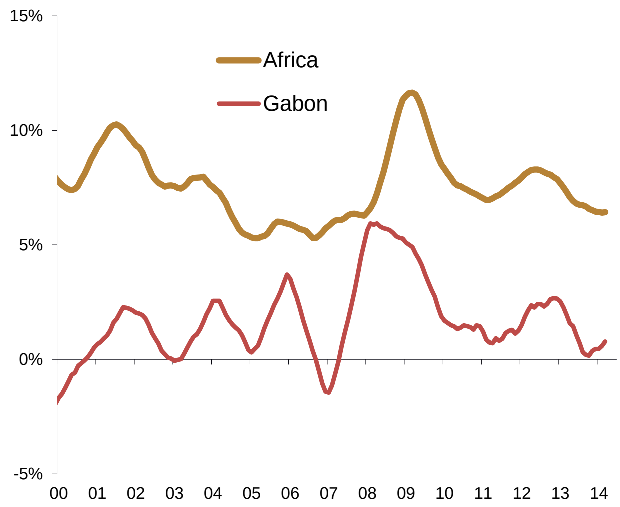
Sources: IHS Global Insight, national sources, Euler Hermes

GDP growth profile (y/y, 4 quarters cumulated, %)



Sources: IHS Global Insight, Euler Hermes

Inflation (%)



Sources: IHS Global Insight, Euler Hermes

External accounts are relatively robust and debt ratios are low

Output from the country's ageing oilfields has declined since 1997 and is unlikely to be reversed in the short- to medium-term periods. In the longer term, oil output may be boosted by development of offshore discoveries. In the interim, export growth is likely to focus on the forestry and mining sectors.

External liquidity indicators remain sound, with the current account of the balance of payments usually recording surpluses (although a small deficit may be recorded in 2014). FX reserves provide import cover of over five months and external debt ratios are relatively low, with external debt/GDP around 9% and external debt/total export earnings around 19%. Debt servicing obligations are correspondingly low (annual debt service/total export earnings is <4).

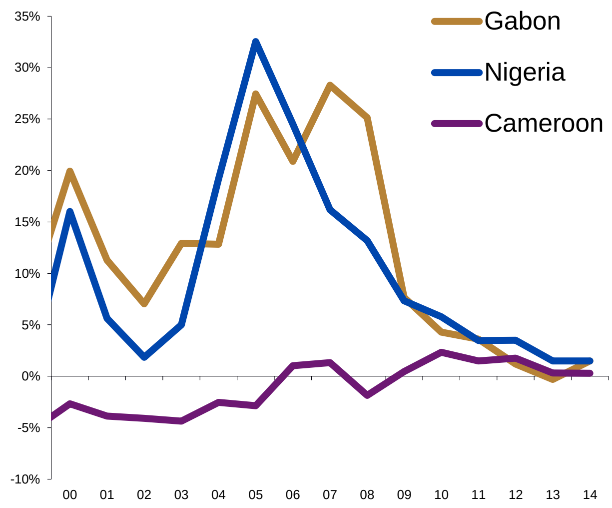
Planning for the future

A background of weak economic performance (GDP growth of less than +1% on average 2000-09) and relatively high unemployment (approximately 20% in 2010), prompted the government to launch a reform plan, the Emerging Gabon Strategic Plan (PSGE), to transform the country into an emerging and diversified economy by 2025. The plan is underpinned by a rapid scaling up of the public investment programme in order to address infrastructure bottlenecks.

With the support of the IMF, Gabon is attempting to improve the overall business environment and attractiveness of the country for international investors. More transparency in the judicial system, acceleration in the pace of structural reforms, privatisation and good governance are all factors that the IMF is promoting. Even so, policy uncertainties relating to a Petroleum Code, with oil companies and the government apparently still some distance apart on proposed legislation that will increase domestic involvement in (and revenues from) the sector. As elsewhere in Sub-Saharan Africa, renegotiation of tax agreements and associated contract revisions are continuing risks for businesses involved in the mining and mineral extraction industries. Across Africa, governments seek to improve the returns they receive from exploitation of their countries' natural resources.

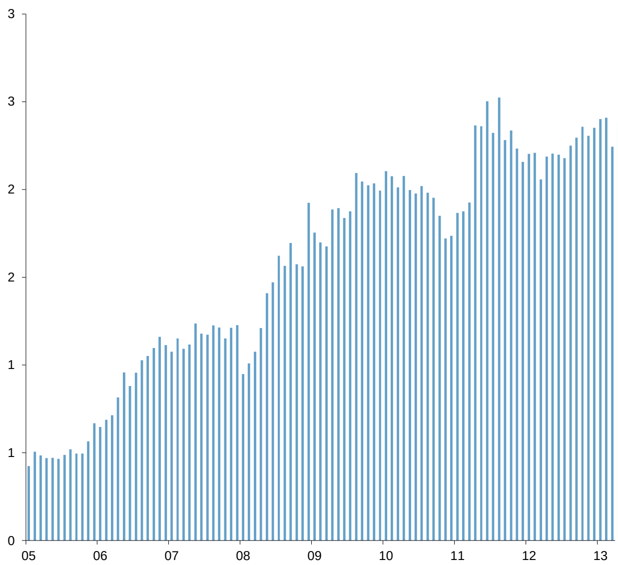
Gabon is unlikely to insist on measures that lead to energy and mining companies avoiding investments in Gabon, particularly as, with dwindling known oil reserves, it will want assistance in developing new deep-water offshore oilfields and there are ongoing needs for infrastructure developments to be able to exploit large inland deposits of manganese, iron ore and other natural resources.

Current account balance (% of GDP)



Sources: IHS Global Insight, Euler Hermes

Foreign exchange reserves (USD bn)



Sources: IHS Global Insight, Euler Hermes

Last review: 2014-12-10
Country Risk Analyst:
Andrew Atkinson
andrew.atkinson@eulerhermes.com