

Sowing the seeds of debt

General Information



GDP	USD 14.21bn (World ranking 117, World Bank 2016)
Population	1.98 mn (World ranking 147, World Bank 2016)
Form of state	Multiparty Presidential Republic
Head of government	Ali Bongo Ondimba
Next elections	2021, Presidential



Strengths

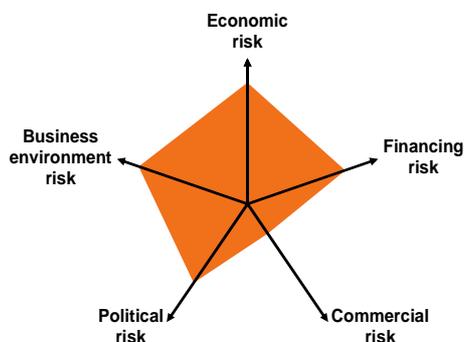
- Relatively stable political environment.
- Good natural resource base; fourth largest oil reserves and second largest timber producer in Sub-Saharan Africa.
- Upper middle income classification by the World Bank.
- Membership of the CFA franc zone provides a relatively stable framework of monetary policy and reduces exchange rate and transfer risk.
- IMF financing although with conditional implementation

Weaknesses

- Despite upper middle income status, levels of inequality and poverty are sources of potential social discord.
- Lack of significant economic diversification results in high vulnerability to external shocks, especially oil changes.
- Economic reform implementation is slow at times.
- Infrastructure impediments and a still-difficult business environment limit economic growth potential.
- Small and vulnerable banking sector.
- High perceptions of corruption and weak judicial oversight.

Country Rating

C3



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports	Rank	Imports
United States	55% 1	25% France
China	9% 2	15% Belgium
Malaysia	6% 3	13% China
Netherlands	5% 4	7% Australia
Spain	4% 5	4% United States

By product (% of total)

Exports	Rank	Imports
Petroleum, petroleum products and related materials	79% 1	10% Road vehicles
Cork and wood	7% 2	9% Other industrial machinery and parts
Metalliferous ores and metal scrap	5% 3	8% Specialised machinery
Cork and wood manufactures (excluding furniture)	2% 4	6% Iron and steel

Source: UNCTAD (2016)



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Economic Overview

Simultaneous triple deep

Gabon was hit by the oil price slump. Its fiscal and external balances tumbled and the previously-high levels of foreign exchange liquidity followed. The political crisis that erupted after the Presidential election in 2016 made things worse as worried investors triggered capital outflows.

Membership in the CFA franc currency partnership had a complex impact. On one hand, the peg to the French franc protected Gabon from a free fall of its exchange rate and inflationary pressures.

Then again, it took its toll in competitiveness. Local corporates were exposed to increasing competition from companies in countries with devalued currencies.

All this adds up to a long-lasting impact on growth. We estimate GDP will rise by a humble +2% in 2018. After an abrupt deterioration in the current account deficit 2018 could offer little improvement with a projected -8% of GDP.

This imbalance had a double impact. First it hampered Gabon's liquidity position with an import cover of foreign exchange reserves plummeting from about 10 months of import cover to just 1.4 month. Second, public debt jumped from 34.1% of GDP in 2014 to 70% in 2018.

Over the last two years, the country was a borderline defaulter. It repeatedly used the 30-days grace period provided to repay borrowers. Jeopardized liquidity and questioned solvency triggered an unavoidable IMF bailout in July 2017. This helped stabilize liquidity in the short-run.

Diversification: Catch me...if you can

Gabon needs to diversify its economy. The issue is not about the country's ability to develop other sectors, but on how to finance such initiatives. During the boom years (2010-14), oil revenues financed the diversification of the economy. Now, with lower oil prices, the domestic service sector stumbled into recession.

As exports are recovering (+38% ytd y/y in June) and oil prices should not collapse again after OPEC prolonged its output cap at a November 2017 meeting, the cyclical momentum should improve.

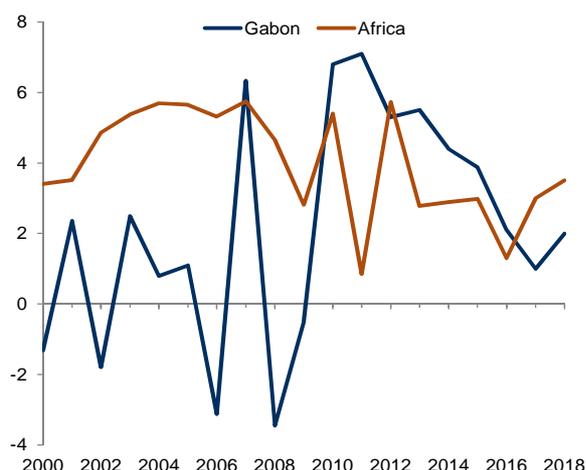
Gabon would be wise to use this window of opportunity to lower the fiscal and external deficits. This could pave the way to sustainable growth, which could otherwise be choked by lack of cash. Gabon's 167th ranking in the World Bank Doing Business survey shows serious bottlenecks still exist, preventing the economy to diversify efficiently.

Key economic forecasts

	2015	2016	2017f	2018f
GDP growth (% change)	3.9	2.1	1.0	2.0
Inflation (%)	-0.1	2.1	1.5	1.0
Fiscal balance (% of GDP)	-1.1	-4.7	-4	-2.5
Public debt (% of GDP)	44.7	64.2	68.0	70.0
Current account (% of GDP)	-5.7	-10.2	-9.5	-8.0
External debt (% of GDP)	34.5	38.5	40.0	43.0

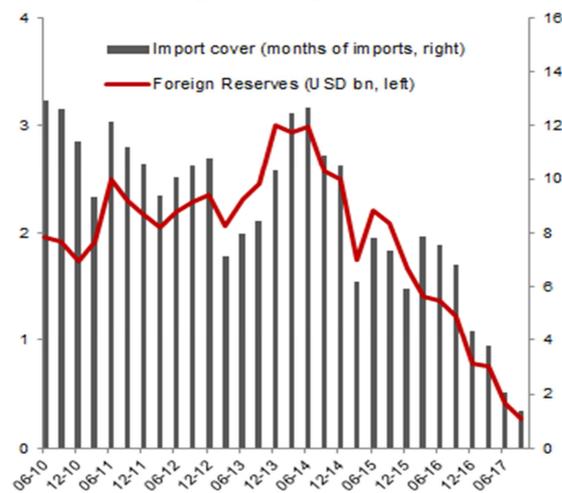
Sources: National sources, IHS, Euler Hermes

GDP Growth (%)



Sources: National sources, IHS, Euler Hermes

Foreign exchange reserves



Sources: Bloomberg, IHS, Euler Hermes

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