Euler Hermes Economic Research

Country Report

Gabon

Weaker oil accounts reveal policy shortages

General Information

GDP	USD14.3bn (World Ranking 117, World Bank 2015)
Population	1.7 Million (World Ranking 151, World Bank 2015)
Form of state	Republic
Head of government	Ali BONGO ONDIMBA
Next elections	2023, presidential elections

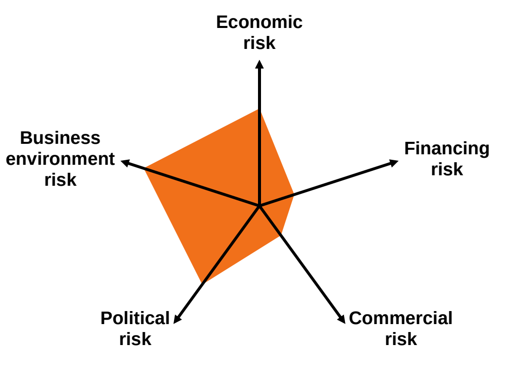
Strengths

- Good natural resource base; Sub-Saharan Africa's fourth largest oil reserves and its second largest timber producer
- Upper middle income classification
- Membership of the CFA franc zone provides a relatively stable background of monetary policy and reduces exchange rate and transfer risk

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 price volatilities
- Economic reform agenda can be slow in implementation.
- Infrastructure 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, petroleum products and related materials	79%	1	8%	Other 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	2%	4	7%	Iron and steel
Other transport equipment	2%	5	7%	Other transport equipment

Source: UNCTAD

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Economic Overview

Policy stability was an asset…eroding

After the oil price slump, economic growth proved quite resilient, with a slight deceleration to +3.5% in 2016, down from +5.6% in 2013. Such good performance stemmed from policy stability. Since Gabon's currency is the CFA Franc, it serves as a buffer against devaluation risks. Other key oil exporters such as Nigeria and Angola do not benefit from a similar system.

Exchange rate stability translated into low inflation (+2.5% in 2016), helping domestic demand to preserve its purchasing power. Alongside with a moderate initial level of public debt (29% of GDP in 2013), the government decided to allow automatic stabilizers behave freely and adopted a countercyclical stance, letting the public deficit increase to a modest -3% of GDP in 2016 (from +3% surplus in 2014). Yet a sharp increase in public debt may push it close to 50% of GDP next year. Moreover, political stability could become an issue on the back of protests and declining legitimacy following the last Presidential election.

Liquidity is not that bad, but the trend is unsustainable

The combination of a 'terms of trade' shock prompted by the low oil price and the current pace of growth implied a current account reversal: from +11.6% of GDP in 2013 to -5.3% of GDP in 2016. This deficit translated into a loss of foreign exchange reserves because FDI is now not sufficient to fill the gap. Reserves decreased from 9 months of imports cover in September 2015 to 5.5 months in June 2016.

This trend is not sustainable as import cover may deteriorate to about 2 months by next year. As a result, some policy options are on the cards. In the short-run, unofficial capital restrictions or payment delays should arise to limit dollar shortages. Afterward, Gabon may have to resort to the IMF and employ more fiscal orthodoxy.

Diversification under scrutiny

Despite the limited direct economic repercussions of low oil prices, Gabon relies on oil. It accounts for 52% of government income, and nearly 80% of export revenue. Petroleum is still the primary source of foreign exchange reserves. Yet, oil-dependence decreased in recent years.

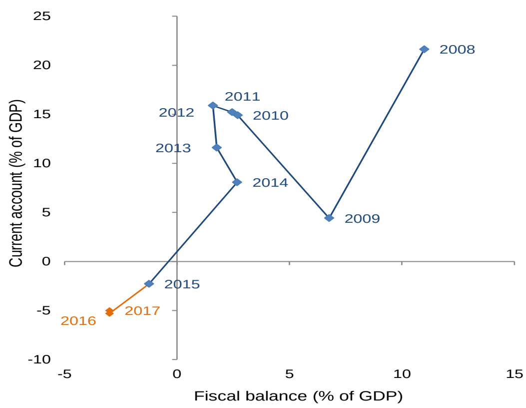
The oil sector represented 45% of GDP in 2010, but only 23% of GDP in 2015. This shift was driven by the public sector which leveraged the oil windfall to grow the non-oil economy. As public debt is rising, it should become increasingly difficult to sustain this kind of diversification strategy .

Key economic forecasts

	2015	2016e	2017f	2018f
GDP growth (% change)	4.0	3.5	3.0	5.0
Inflation (%, end-year)	0.0	2.5	3.0	3.5
Fiscal balance (% of GDP)	-1.2	-3.0	-3.0	-2.0
Public debt (% of GDP)	44.0	47.5	49.0	51.0
Current account (% of GDP)	-2.3	-5.3	-5.0	-4.0
External debt (% of GDP)	34.5	38.5	39.0	42.0

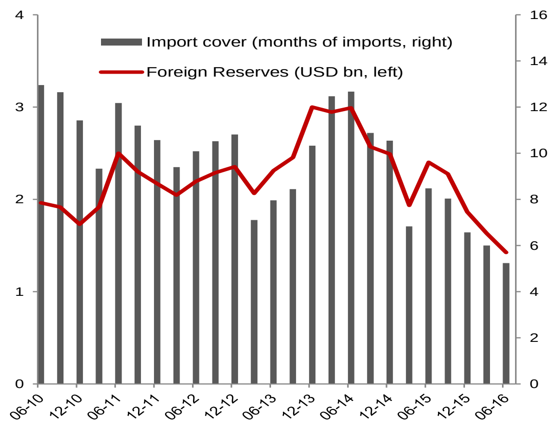
Sources: National sources, IHS, Euler Hermes

Current account and fiscal balances



Sources: IMF, Euler Hermes

Foreign exchange reserves



Sources: Bloomberg, IHS, Euler Hermes

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Contact Euler Hermes Economic Research Team

research@eulerhermes.com

Last review: 2016-12-08
Country Risk Analyst:
Stéphane Colliac
stephane.colliac@eulerhermes.com