Gabon

key figures

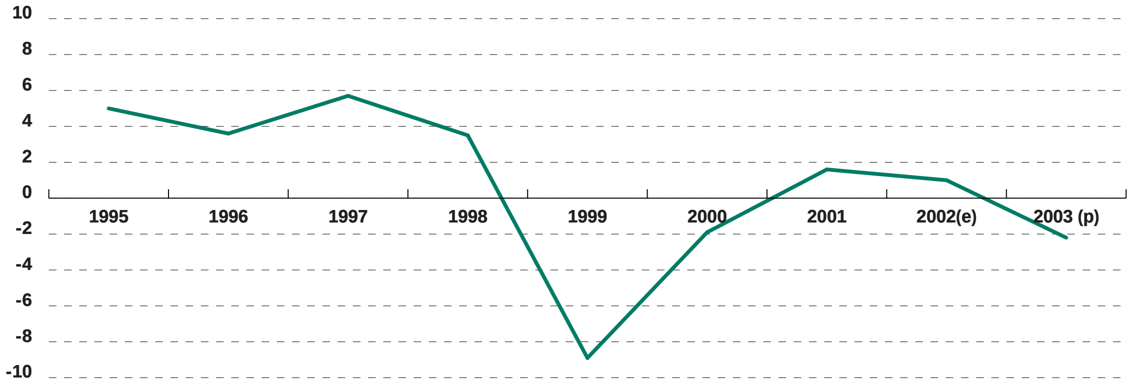
- Land area, thousands of km² 268
- Population, thousands (2001) 1 262
- GDP per capita, $ (2001) 3 716
- Life expectancy (2000-2005) 52.9

Gabon

WITH AN ANNUAL PER CAPITA income of more than \$3 700 in 2001 and a purchasing power parity (PPP) of \$6 200 in 2000, Gabon is one of Africa's richest countries. However, it went through a serious economic crisis in 1999 and only slightly recovered from this in 2000 and 2001, thanks to the strength of the non-oil sector and a less-than-expected drop in oil production. The economy still suffers from erratic public expenditure, dependence on diminishing oil output and negligible diversification. In the medium term, declining oil revenue threatens government resources, the country's investment capacity and the stability of the banking sector. As a result, the expected 1 per cent GDP growth in 2002 may fall to –2.1 per cent in 2003. The end of the oil bonanza is especially serious because Gabon has poor social indicators, despite its high per capita income, and a heavy external debt for which it cannot claim relief under the Heavily Indebted Poor Countries (HIPC) initiative.

Oil revenues serve as a disincentive for Gabon to resolve its structural problems.

Figure 1 - Real GDP Growth



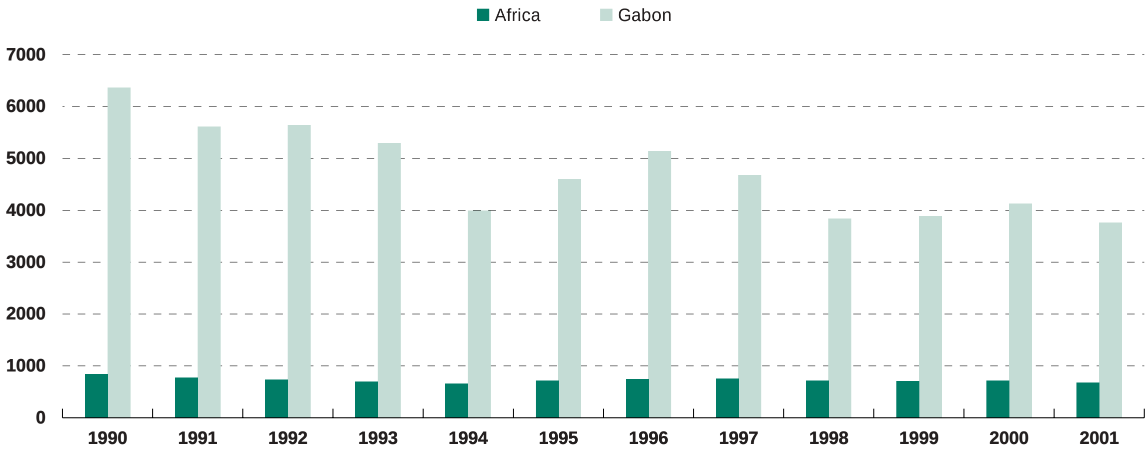
Source: Authors' estimates and predictions based on data from the *Direction Générale de l'Économie.*

Recent Economic Developments

The non-oil sector (especially construction, timber processing and communications) picked up again in 2001, growing 4.4 per cent in volume and partly offsetting the 5.3 per cent slowdown in oil activities. This produced volume GDP growth of 1.6 per cent.

Gabon has a wealth of raw materials, notably oil, minerals and timber, but is still heavily dependent on oil, which provides 76 per cent of all export earnings, 66 per cent of government revenue and about 42 per cent of current GDP in 2001. The country is increasingly concerned with falling oil production. The oil companies operating in the country (among which Shell and Elf accounted for 70 per cent of output in 2001) estimate that extraction will have shrunk by half by 2005. This drop in production, foreseen in 2000, has been postponed by the opening of smaller oilfields and by recovery of residual oil from worked-out deposits, made feasible by steady prices and better technology. Output was 13 million tonnes in 2001, 4.4 per cent down from the 13.6 million tonnes of 2000. In the long term, falling production can only be halted by the discovery of new deposits. As oilfields in Gabon tend to be small, a number of new finds

Figure 2 - GDP Per Capita in Gabon and in Africa (current $)



Source: Authors' estimates based on IMF data.

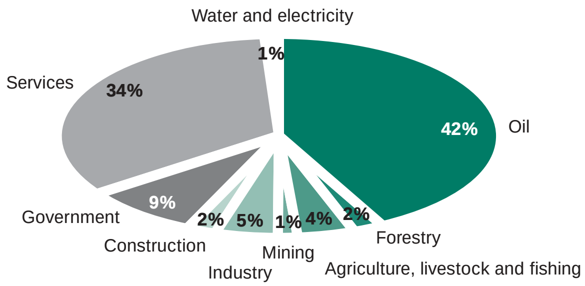
will be necessary to reverse the fall. This is possible with vigorous investment (up 47 per cent in 2001) and particularly, by more deep-water offshore prospection.

The country's second biggest resource, timber, was once the mainstay of the economy. Although the sector now provides only 2 per cent of GDP, it is still the second largest employer after the government, absorbing 28 per cent of the workforce. The sector was hard hit by the 1998 Asian financial crisis and then in 2001 by a wholesale reorganisation. Decreased world demand, especially from Asia, caused significant operational problems in the monopoly state timber-marketing firm, the SNBG. To remedy the situation, the government began limiting exports of logs in March 2001, first to 80 per cent and then to 40 per cent of production, intending to deplete the SNBG stocks and to encourage processing activity. As a result, 2001 was a middling year for timber production, with an 18 per cent decrease on the previous year. Some firms, already badly affected by the 1998 Asian crisis, and then compelled to cut back were obliged to stop operating altogether. However, the government's aim was partly achieved as the SNBG's stocks shrunk by 57 per cent, while sawmill activity increased by 42 per cent and plywood production by 21 per cent. The SNBG export quotas were temporarily suspended in 2002, but in the long term the government wants to reduce unprocessed timber exports as much as possible. For their part, logging firms have criticised the tough measures, the practice of favouritism, and the delay in setting up a regulatory structure.

Gabon has a rich mining sector now primarily based on manganese, since uranium extraction ended in June 1999. Despite the opening of the Moanda iron alloy plant in January 2001, which boosted production by 2.8 per cent, exports fell 14.4 per cent as a result of lower steel industry demand, especially in the United States.

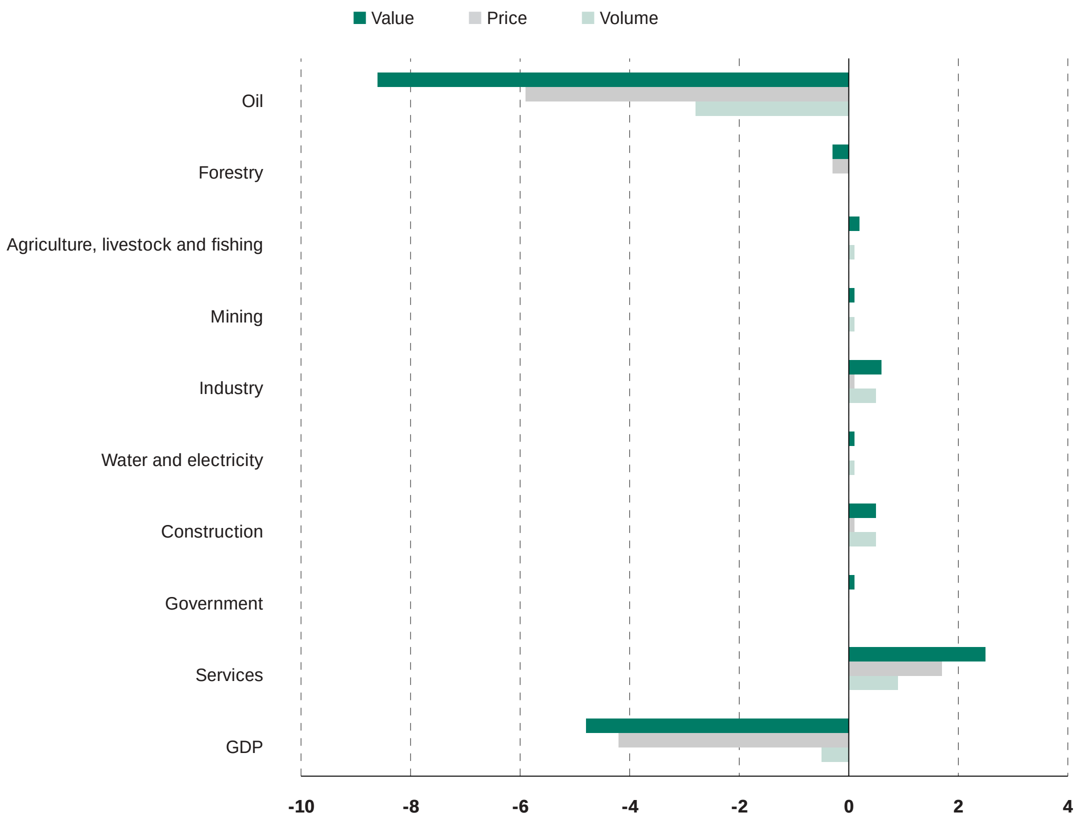
After oil was discovered in the late 1950s, agriculture (including fishing and livestock) was neglected and in 2001 it accounted for only 4 per cent of GDP. This was accompanied by a depopulation of the countryside (82 per cent of the population was urban in 2001) and by a rural labour shortage. The country was thus obliged to import over 60 per cent of its food. The government wants to counter the effects of falling oil production by diversifying export crops (encouraging cultivation of coffee, cocoa, rubber, palm oil and sugar). To this end it keeps prices to farmers high. However, the general disorganisation of agro-industry following privatisation remains an obstacle, while agricultural growth is greatly impeded by the poor communications network, low world prices, ageing cocoa and coffee plantations and lack of support structures. Annual production of food crops fell in 2001 (with taro and yams down as much as 23 per cent) and coffee and cocoa sales dropped

Figure 3 - GDP by Sector in 2001



Note: The oil sector includes production of crude oil, refining and prospecting, and oil services.
Source: Authors' estimates based on data from the *Direction Générale de l'Économie.*

Figure 4 - Sectoral Contribution to GDP Growth in 2001

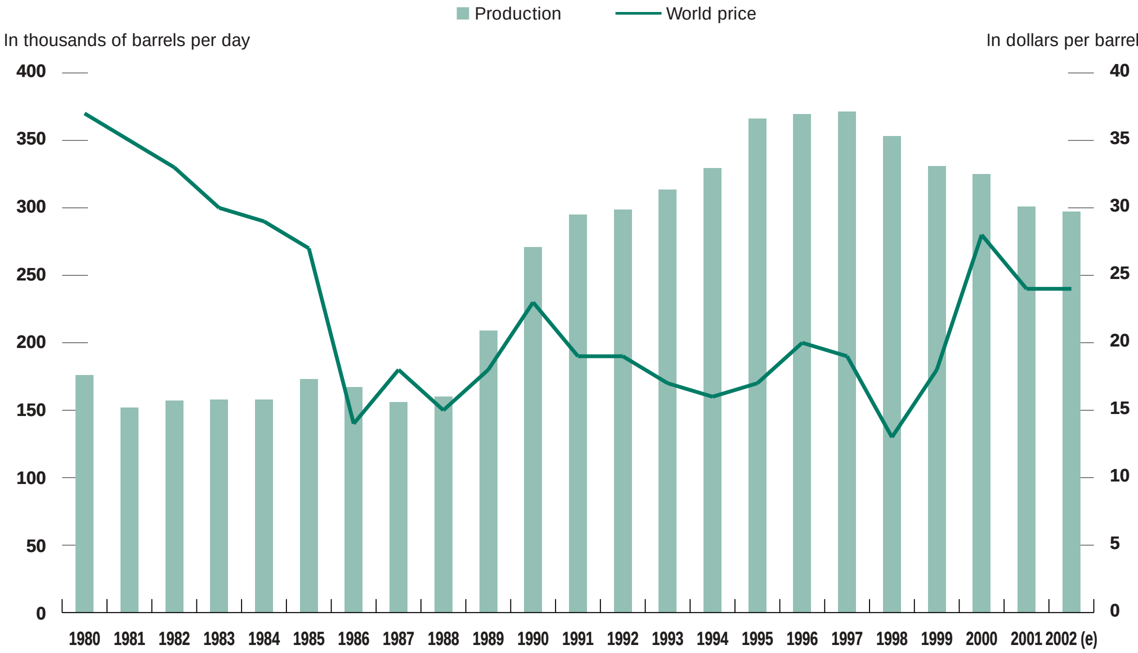


Note: GDP volume growth is shown as negative because the weight of the oil sector is different from that used in the national accounts.
Source: Authors' estimates based on data from the *Direction Générale de l'Économie.*

50 per cent and 20 per cent, respectively. The only bright spot was rubber, whose production tripled in 2001 with the reopening of the Mitzic plantation.

The industrial sector is very small and has been neglected in favour of raw material production. Processing is limited to a small oil refinery (750 000 tonnes annual capacity) at Port Gentil and a few timber operations. The refinery's volume output fell by 10 per cent in 2001 after an explosion caused by its dilapidated equipment shut down the plant for more than two months. Heavy cutbacks in public investment, coupled

Figure 5 - Oil Production and Prices in Gabon



Source: Energy Information Administration (production) and World Bank (international price).

with private sector wariness in response to government delays in settling bills and from cumbersome bureaucratic procedures, caused the construction industry to be badly hit by the 1999 crisis. The state helped restore confidence in 2001 by clearing its domestic debts and the sector subsequently grew 32 per cent in this year (compared with a drop of 24 per cent in 2000). However, the private sector's timidity returned in early 2002 following new uncertainties regarding public finances.

Traded services accounted for a third of GDP in 2001 and show much vigour, especially in telecommunications (though this sector is making up for lost time, it remains weak for a middle-income country). This vitality should last into 2002/03 when the national network will be hooked up with fibre-optic cable. Hopes of making Gabon a regional service centre have faded though, with regional co-ordination lacking (each oil-producing country preferring its own facilities) and with continuing delays in projects such

Table 1 - Demand Composition (percentage of GDP)

	1995	1999	2000	2001	2002 (e)	2003 (p)
Oil production	**39.2**	**36.6**	**47.2**	**40.5**		
GDP excluding oil	60.8	63.4	52.8	59.5		
Gross capital formation	**23.7**	**24.3**	**22.4**	**29.5**	**33.3**	**35.2**
Public	5.5	6.8	5.0	5.8	8.0	7.8
Private	18.2	17.5	17.4	23.7	25.3	27.4
Consumption	**52.7**	**55.6**	**46.2**	**50.5**	**52.2**	**54.9**
Public	14.1	16.8	13.6	14.7	15.0	15.5
Private	38.6	38.8	32.6	35.8	37.3	39.4
External sector	**23.6**	**20.1**	**31.4**	**20.0**	**14.5**	**9.9**
Exports	57.5	56.4	64.4	57.7	53.7	51.0
Imports	-33.9	-36.2	-33.1	-37.7	-39.1	-41.2

Source: Authors' estimates and predictions based on data from the *Direction Générale de l'Économie.*

as the duty-free zone at Port Gentil[1]. Only the banking sector seems sufficiently competitive to expand in the sub-region. The GDP share of non-traded services is also very large, with 40 000 civil servants in a population of 1.2 million, twice as many as in other African countries. Nonetheless, since devaluation in 1994 the informal sector has experienced accelerated growth in response to the fall in real wages and a decline in civil service jobs.

Macroeconomic Policy

Fiscal and Monetary Policy

In 2001, three years after the serious budget crisis of 1998, the deficit reached 14 per cent of GDP, putting the government in a difficult position. The poor performances of state-owned companies necessitated unforeseen large cash injections. Delays in privatising the agro-industrial firms, Agrogabon (palm oil) and Hevegab (rubber), required the government to continue their subsidies. It also had to help increase the capital of both Air Gabon (to enable it to repay its debts) and of Comilog (to pay for a manganese processing plant). Added to this were: a very large external debt-servicing bill (615 billion CFA francs, i.e. about $840 million), bank-loan repayments, and the cost of holding parliamentary elections. Oil and tax revenues were less than expected due to lower world oil prices and poor customs receipts. Explaining its increased deficit, the government highlighted the particularly ambitious goals of the 2001 budget, which had put public finances under great pressure leading the government to rollover bank debts and to make statutory drawings on the BEAC. Budgetary excesses and delayed structural reforms also resulted in failure to meet the conditions of the IMF stand-by programme signed in October 2000, thereby preventing the last three reviews and the disbursement of related tranches.

Table 2 - Public Finances (percentage of GDP)

	1995	1999	2000	2001	2002 (e)	2003 (p)
Total revenue and grants [a]	**29.5**	**28.3**	**33.5**	**34.6**	**33.1**	**32.3**
Taxes	10.8	11.0	10.4	10.9	11.3	11.8
Oil	17.9	12.8	22.6	22.8	21.0	19.6
Total expenditure [a]	**26.7**	**27.2**	**21.8**	**27.5**	**24.5**	**24.5**
Current expenditure	21.2	23.0	18.7	23.1	19.7	19.7
Excluding interest	*12.7*	*16.2*	*12.8*	*14.4*	*14.7*	*15.4*
Wages and salaries	7.2	7.5	6.0	6.4	6.3	6.5
Interest payments	8.5	6.8	5.9	8.7	5.0	4.3
Capital expenditure	5.5	4.1	2.9	3.6	4.9	4.8
Primary balance	**11.3**	**8.0**	**17.6**	**15.8**	**13.6**	**12.1**
Overall balance	**2.8**	**1.2**	**11.7**	**7.1**	**8.6**	**7.8**

a. Only major items are reported.
Source: Authors' estimates and predictions based on data from the *Trésor Publique.*

The year got off to a bad start in 2002 with a sharp fall in world oil prices causing the government to review the oil price predictions on which the budget was based. The cost of holding elections and technical problems in processing budget data compounded the difficulties. As a result, by late May the 2002 budget had yet to be passed, making economic decision-makers more hesitant and automatically delaying the investment budget.

To plug the 2002 budget deficit, the government seeks to boost revenue with higher export taxes on timber and manganese, smaller subsidies for the national

1. The law establishing the duty-free zone was passed in October 2001 but it will not start operating until 2005. At present, most shipping traffic passes through Douala.

oil refinery (Sogara) and higher taxes on beer. This will be accompanied by better monitoring of tax collection, including closer attention to exemptions, more frequent audits of big firms and an enhanced enforcement of income tax. This should boost tax revenue to 11.3 per cent of GDP in 2002 and to 11.8 percent in 2003 as oil revenues continue to fall. The government will restrict its subsidies to state-owned companies (the post office, Agrogabon, Hevegab and Air Gabon) to one per cent of GDP and it will repay a third of Air Gabon's debt (representing 0.6 per cent of GDP). Despite these efforts, and if the government proceeds with its planned investments, the overall budget balance will not improve much in 2002 and 2003.

As in other CEMAC member states, Gabon's exchange rate is pegged to the euro and its monetary policy is in the hands of the BEAC, leaving fiscal policy as the country's main economic instrument. Since the 1994 devaluation, inflation has been well under control. It was about 2.6 per cent in 2001 and should be about the same in 2002 and 2003. However, net foreign reserves fell sharply in 2001 because of lower export revenue and especially high debt repayments.

External Position

Abundant natural resources and thus, greater purchasing power than other African countries, make Gabon a major exporter and importer. It sells mostly oil (80 per cent of total exports in 2000 and 2001), timber (12 per cent) and manganese (4 per cent) and more than half of all exports go to the United States. Imports are mostly food (18 to 20 per cent as the country is far from self-sufficient), chemicals and transport equipment. More than half of all imports come from France.

Gabon's normal trade surplus was pushed to a record high in 2000 by a steep rise in oil prices that also improved terms of trade by 55 per cent. This subsequently fell in 2001 and terms of trade declined by 10 per cent. The value of exports shrank by 15 per cent due to the smaller amount of oil and timber sold, and lower world prices for both commodities. Imports were boosted 11 per cent by the strength of the non-oil sector and by investment aimed at slowing the decline in oil production. Lower oil exports, which increased timber and manganese exports will not completely offset, should weaken the trade balance further in 2002 and 2003.

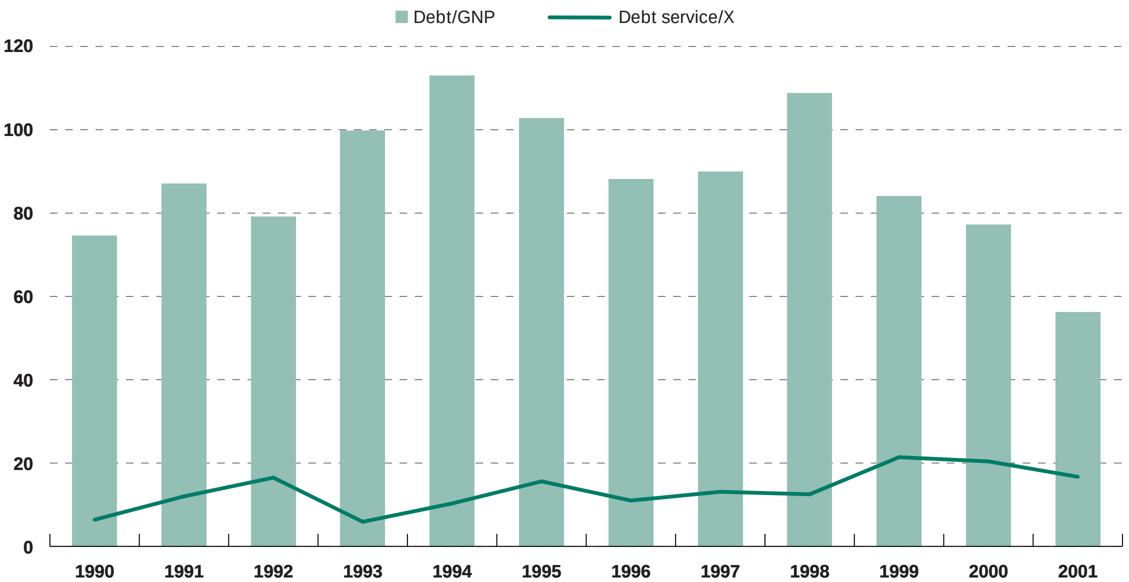
Gabon has accumulated a large external debt whose nominal value in 2001 was more than $2 500 million (56 per cent of GDP). Much of this was incurred during a period of major construction in the late 1980s when the Trans-Gabon railway was built. The CFA franc value of this foreign currency debt increased from devaluation and by the government guarantee offered on the liabilities of partially state-owned firms. The debt burden is especially heavy, not being made up of soft loans, so interest payments are high (about 80 per cent of non-oil tax revenue in 2001). Also, the country's relatively high per capita income makes Gabon ineligible for the HIPC initiative. In October 2000, the government renegotiated its debt with the Paris Club and it is now seeking further renegotiation, though obtaining IMF support is a precondition for this.

Tableau 3 - Current Account (percentage of GDP)

	1995	1999	2000	2001	2002 (e)	2003 (p)
Trade balance	35.2	35.5	45.1	34.9	30.2	26.2
Exports of goods	53.3	53.6	63.4	56.2	52.2	49.6
Imports of goods	-18.1	-18.2	-18.2	-21.3	-22.0	-23.3
Services balance	-13.6	-14.9	-13.7	-13.4		
Factor income	-14.4	-25.4	-27.3	-21.5		
Current transfers	-4.0	-3.9	-1.0	-1.0		
Current account balance	3.2	-8.7	3.2	-1.0		

Source: Authors' estimates and predictions based on IMF data.

Figure 6 - Stock of Total External Debt (percentage of GNP) and Debt Service (percentage of exports of goods and services)



Source: World Bank.

Structural Issues

Structural reform, especially privatisation, was frequently delayed in 2001.

The institutional framework was strengthened by a new labour law, declared in October 2000. A census of government employees was completed in October 2000 and a new organisational chart was drawn in March 2001. The new status of civil servants was approved by the government in October 2001 and the Senate passed anti-corruption laws in December that year. In early 2002, a body to encourage private investment, APIP, was set up to act as a single gateway for investors and to cut red tape. Despite such initiatives, reforms are not being consistently implemented. Parliament approved an investment charter and rules of competition in 1998, but they have not yet been applied. Business people continue to complain about red tape and the many illegal special taxes they say hinder private-sector growth (despite such taxes being specifically banned in the budget). Overall though, foreign investors say Gabon is a good place in which to invest, given the privileged welcome extended to them. They are also very pleased at President Omar Bongo's support for NEPAD and with the encouragement of the private sector that this entails.

Gabon's public sector is very large, as a 1973 law accords 10 per cent of the shares of any new private company to the state. A privatisation programme was finally begun in 1997 with the handover of 51 per cent of the water and electricity company, the SEEG to the Vivendi Group with a 20-year monopoly on production and distribution. It was not a cash deal however, but consisted of a pledge by the new owner to greatly reduce the cost of the services and to invest 300 billion CFA francs ($421.5 million) in the company, extending the network to increase the level of service from 60 per cent to 90 per cent by the end of the franchise. This privatisation was followed by those of the state sugar operations and the Trans-Gabon railway in 1998, and by that of the state cement company in 2000. The railway has been hampered since then by a dispute with the manganese firm Comilog, which refuses to pay higher freight charges. In November 2001, the national forestry company CFG, was sold to the Italian firm Cora, but its health remains uncertain.

CFG's equipment is very old and the lay-off of 800 workers has caused serious labour problems.

Some firms, particularly in the agro-industrial sector, failed to attract buyers after calls for tender. The government has therefore decided to restructure them before putting them back on the market. In July 2001, it handed over management of Agrogabon to a Malaysian firm, Winnerpac, thereby intending to facilitate replanting of older palm plantations, to expand acreage and to restart oil and soap factories. Privatisation was planned after three years. The plan for restructuring Hevegab is being drawn up by consultants. Other companies have needed wholesale restructuring before being sold. The post and telecommunications authority was split in two in August 2001, with Gabon Poste set for restructuring and Gabon Telecom for privatisation. The shortlist of firms tendering for the latter was announced in July 2002, with a deadline for bids at the end of September. Gabon Telecom includes the fixed-line phone system and the Libertis subsidiary, which runs the country's biggest mobile phone network. Restructuring of the post office is being held up by the processing of money due from the government.

Air Gabon is due for thorough restructuring before being partly opened up to private capital. It has already been audited and its fleet much reduced. Lufthansa Consulting was chosen in November 2000 to draw up a future operating plan. A contract to buy a Boeing aircraft was cancelled in June 2001 at IMF insistence because of the poor terms of the deal.

Ninety per cent of the assets of Gabon's financial system are held by banks, with the balance being held by a few insurance firms and leasing companies. Microcredit does not exist. The banking sector, unlike those of other franc zone countries, has not experienced any large crisis. Thus it has avoided substantial restructuring, largely thanks to its early adoption of prudent credit policy management rules similar to those in Europe. Closure of the *Banque Rurale* and the *Banque Populaire* has left five commercial banks operating, of which the BICIG, the BGFI and the UGB hold 80 per cent of deposits and loans.

Despite a tense situation in 1998 and 1999 arising from the government falling behind in repayments to the banks, the sector is considered generally sound (in December 2000, non-performing loans were 3.6 per cent). An IMF survey in late February 2001 showed however, that only one of the five banks was maintaining all prudential ratios. The situation worsened in 2001 because of a tricky economic climate, with smaller bank deposits, a rise in unhealthy portfolios and lower bank profits. Only the BGFI and CitiBank showed any growth, mainly due to BGFI's investments in the sub-region. The Gabonese Development Bank (BGD) had problems calling in debts from the government. The banking system is hampered by heavy dependence on the state sector and is very vulnerable to budgetary shocks which are amplified by the narrow range of investments.

Only 3 per cent of the population have a bank account with a significant portion of savings not being channelled into the system, either for want of proper structures or because they are recycled into the informal sector. This involves substantial cost and a risk of overindebtedness. Bank deposits are only to 12 per cent of GDP in Gabon, compared with 37 per cent in Kenya, 74 per cent in Mauritius and 55 per cent in South Africa. A debate is under way about using the post office's solid and extensive rural network to make loans to small entrepreneurs. The Central African Regional Stock Exchange (BRVMAC) is due to open in the second half of 2003, though the business sector remains sceptical about its usefulness, given that a stock exchange is being established in Douala. However, the government wants to use it to issue securities to eventually replace the BEAC statutory advances (which were reduced by 10 per cent in 2002).

Gabon's transport infrastructure is weak and poorly maintained. The government began funding an urban road maintenance programme in Libreville and Port Gentil in July 2001 and a three-year road repair project has been launched. However these operations are behind schedule because of delays in receiving government payments. As an impetus to renovating provincial towns, the authorities intend to sponsor an annual festival in a different location each year.

Political and Social Context

Gabon became a multi-party democracy in March 1991. President Omar Bongo, in power since 1967, was the first head of state elected under the new system in 1993 and he was re-elected in December 1998 for seven years. His Gabonese Democratic Party and its allies won 107 of the 120 seats in parliamentary elections in December 2001. Despite this overwhelming victory, a broadly based government was formed bringing in four opposition members, among them the mayor of Libreville, a long-standing Bongo opponent. In a country where dissent is all too rare, some have lamented the weakening of the opposition implied by this absorption into the government. However, it makes Gabon very politically stable.

Instability derives mainly from abroad, coming especially from the neighbouring Democratic Republic of the Congo. President Bongo was a political mediator in Congo-Brazzaville until 14 April 2002, at the request of his father-in-law, President Denis Sassou Nguesso. Bongo's prestige and international involvement was acknowledged in early 2002 when CEMAC appointed him mediator in the political crisis in the Central African Republic.

Gabon's per capita GDP of $6 200 in terms of purchasing power parity (PPP) makes it a middle-income country, in seventh place in Africa, after Equatorial Guinea, Mauritius, South Africa, Botswana, Namibia and Tunisia. Very unequal income distribution remains with almost 80 per cent of both public and private-sector salaries divided among 2 per cent and 20 per cent of employees respectively. The social situation deteriorated in the 1990s because of public investment cuts due to the growing external debt. In 1999, it worsened with wholesale layoffs in mining and oil (Shell left Port Gentil), though the public sector kept its 40 000 or so employees. The UNDP puts total unemployment at 20 per cent, with large regional disparities and with Port Gentil especially affected.

Despite not being included in the HIPC initiative, Gabon has begun drafting a Poverty Reduction Strategy Paper (PRSP) but as yet, does not have the participatory element (national consultation) and poverty definitions (household surveys) the PRSP requires. The government plans to combine the 2003 census with a survey to obtain a clearer view of the poverty situation. Major doubts about available funding for anti-poverty efforts remain.

Gabon's health indicators are similar to those of other African countries. Infant mortality is 80 per 1 000, about the same as Cameroon (79.3) and Côte d'Ivoire (80.8). Life expectancy, at 52.4 years, is a little higher than elsewhere in Central Africa (50 in Cameroon and 45.2 in Chad). These low figures, notwithstanding the country's wealth, are due to poor organisation and lack of health workers rather than to underinvestment in health[2]. The government has always officially favoured the main towns to the detriment of the basic national infrastructure. Many rural clinics have closed for want of trained staff willing to be posted to the countryside. To remedy this, the government has set up a nursing school, the ENAS. Gabon also has to cope with two major diseases, malaria and HIV/AIDS. The HIV/AIDS situation has worsened since the early 1990s. The 1998 infection rate of 6.5 per cent had risen (according to a survey by the government and the Research and Development Institute in Libreville and Port Gentil) to 6.7 per cent by 2000 (7.7 per cent in Libreville). The authorities are aware of the gravity of the situation and have launched a large awareness campaign.

Gabon introduced universal education in the 1960s, so primary school enrolment is higher than the African average. In 1999, the gross primary enrolment was around 151.5, but this included many repeated years. Only 40 of every 100 children are estimated to complete primary school in the normal time (by the age of 10). Because there is no limit to repeating years, some pupils are as old as 20 before they finish. This poor educational performance is linked to inadequate staff and equipment. Despite lack of reliable data, school

2. The World Health Organisation's 2000 World Health Report puts Gabon among the 100 countries that spend the most per capita on health.

attendance is also thought have fallen since the early 1990s. The government has had trouble recruiting teachers since the mid-1990s because of low pay and reluctance to take jobs in rural areas. This produces an ageing corps of teachers and over-crowded classrooms (some in Libreville have as many as 100 children). The high dropout rate comes at very heavy cost. The government estimates that the cost of each year of primary school education is six times greater per child than it should be, putting Gabon among the countries where education spending is least effective.

Gross secondary school enrolment is 53 per cent but falls to 20 per cent net. At university level, the success rate is about 10 per cent. On top of these performance problems, several recent academic years have been partly or completely lost because of strikes. This prospect of a smaller stock of qualified people is made worse by the country's already poor training for the labour market (science has been generally neglected). The government wants to remedy this by providing specialist training, particularly in agriculture and tourism.