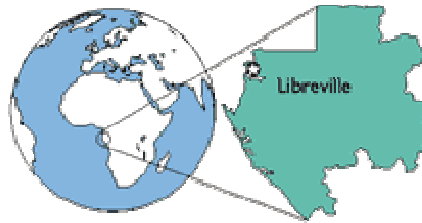


COUNTRY REVIEW

Gabon



1 March 2010

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EULER HERMES COUNTRY RISK GRADE: C

Country Risk Grades are on a scale of AA, A, BB, B, C, D
where AA is the lowest and D the highest risk.

Strengths

- Comparatively stable political environment
- Membership of CFA franc zone provides for limited transfer risk
- Solid fiscal position
- Substantial current account surpluses since 2003

Weaknesses

- Inefficient exploitation of ample natural resources
- High level of income inequality and poverty
- Poorly diversified economy results in high vulnerability to external shocks, especially oil price shocks
- Slow economic reform process
- High barriers to trade and considerable government meddling in the economy
- Small, vulnerable and inefficient banking sector
- Widespread corruption and weak judiciary

KEY RISKS

- Sharp fall in global oil prices

Country Risk Assessment

Ratings	Gabon		Median Grade C	Cameroon	Peers Lybia	Uganda
	Latest	Previous				
Systemic Political Risk:	P2-	P2-	P2-	P3-	P3-	P3-
Systemic Economic Risk:	E5	E5	E5	E5	E4	E5
ME rating:	ME4	ME4	ME5	ME4	ME3	ME4
<i>Structure</i>	5.7	5.7	5.8	6.0	6.0	6.0
<i>Policy</i>	6.0	3.8	5.2	4.3	6.0	4.2
<i>Solvency</i>	1.7	2.5	3.3	2.0	1.0	2.0
<i>External Liquidity</i>	2.8	3.2	4.7	2.8	1.9	4.2
SBE rating:	SBE5	SBE5	SBE4	SBE5	SBE4	SBE5
COUNTRY GRADE:	C	C		C	C	C

Nomenclature:

Political Risk Ratings are on a scale of P1 (lowest risk), P2+, P2-, P3+, P3-, P4 (highest risk).

Economic Risk Ratings are on a scale of E1 (lowest risk), E2, E3, E4, E5, E6 (highest risk).

ME (Macro-Economic) ratings are on a scale of ME1 (lowest risk), ME2, ME3, ME4, ME5, ME6 (highest risk).

The constituent parts of the ME rating are on a scale of 1.0 (best) to 6.0 (worst).

SBE (Structural Business Environment) ratings are on a scale of SBE1 (best), SBE2, SBE3, SBE4, SBE5, SBE6 (worst).

Country Grades are on a scale of AA, A, BB, B, C, D where AA is the lowest and D the highest country risk.

Source: Euler Hermes Country Risk Unit

ECONOMIC STRUCTURE

Country Profile	
Capital city:	Libreville
Population:	1.454 mn (2008e)
GDP:	USD 14535 mn (2008e)
Currency:	Communauté Financière Africaine franc (XAF)
Form of state:	Republic
Head of government:	President Ali BONGO Ondimba (since October 2009)
Next elections:	National Assembly: 2011 / Senate: 2015 / President: 2016

Major Industries (% of GDP at market prices, 2007)		Global Assumptions	
		2009	2010
Industry	57.5%	Real GDP grth (% yr/yr) *	-3.9
Oil	50.0%	Inflation (% av) *	-0.1
Manufacturing	4.5%	Dated Brent (USD/b)	61
Services	37.2%	* Major economies	72
Agriculture, fishery, forestry	5.3%		

Main Exports (% of total, 2008)		Main Imports (% of total, 2008)	
Petroleum products	80.7%	Machinery and appliances	37.0%
Manganese ore	11.3%	Food and beverages	18.0%
Wood and wood products	5.6%	Consumer goods (non-food)	17.0%
Lead Export Markets (% of total exports, 2008)		Lead Import Markets (% of total imports, 2008)	
US	25.0%	France	32.0%
China	18.0%	US	11.0%
Japan	10.0%	China	5.0%
Malaysia	5.5%	Belgium	4.5%

Basic indicators

Selected economic indicators	2006	2007	2008e	2009e	2010f
Nominal GDP (USD mn)	9,546	11,571	14,535	14,025	15,022
Population (mn)	1.40	1.43	1.45	1.48	1.50
GDP per capita (USD)	6,828	8,075	9,997	9,508	10,042
Real GDP growth (% yr/yr)	1.2	5.6	2.3	-1.0	2.5
Inflation (% eop)	-0.7	5.9	5.6	3.0	4.0
Fiscal balance (% of GDP)	8.6	7.8	10.2	1.5	5.0
Current account balance (% of GDP)	10.4	13.7	17.1	3.0	6.0
External public debt/GDP (%)	32.5	34.9	14.6	18.0	15.5
External public debt/Exports of goods & services (%)	52.3	56.0	22.1	34.6	28.5
External public debt-service ratio (%)	10.8	10.5	26.7	7.6	5.7
Foreign exchange reserves (USD mn)	1,112	1,226	1,922	1,800	1,900
Import cover (months)	3.1	4.1	5.1	5.5	5.1
Exchange rate assumption, XAF:USD (av)	522.9	479.3	447.8	472.2	468.6

e: CRU estimate; f: CRU central forecast

Sources: IMF, World Bank, OECD, AfDB, UN, Euler Hermes Country Risk Unit

Political Stability

Gabon has faced few periods of political instability since it gained independence from France in 1960, despite a heterogeneous population, made up of 40 different tribes. A nominal multi-party democracy was introduced in 1991, but the Parti Démocratique Gabonnais (PDG)—formerly the single political party—has continued to dominate politics. The PDG currently controls the bicameral legislature and the majority of municipal councils after having clearly won the 2006 lower house elections (82 out of 120 constituencies/seats), the 2009 upper house elections (75 out of 102 seats) and the 2008 local elections. A guarantor of a comparatively high level of political stability was former president Omar Bongo Ondimba, who led Gabon from 1967 until his death in June 2009—then Africa's longest-serving head of state. Omar Bongo controlled the political networks and his strategy of co-opting prominent opposition leaders into his cabinet as well as maintaining an ethnic balance within the government was successful. Opposition parties remained divided and were unable to threaten the president's authority. Moreover, fiscal flexibility resulting from Gabon's oil wealth helped to mitigate occasional social tensions, for instance outbreaks of public frustration provoked by rising food prices in early 2008 were countered with the introduction of price controls and import duty exemptions on basic goods such as milk, flour and oil.

Omar Bongo's death raised succession questions, given untested constitutional terms. Presidential elections were held in August 2009 and Ali Bongo Ondimba—son of Omar Bongo and candidate of the PDG—was declared the winner, with 41.7% of the vote, compared with around 25% each for the two next candidates. The opposition alleged electoral malpractice and there were violent street protests, but a recount ordered by the Constitutional Court did not change the result and Ali Bongo was sworn in in October 2009. For now, the new president appears to have control of the political elite and the army. His victory has been acknowledged by France, the still influential former colonial power, which desires political continuity and stability. However, there is a risk that a political dynasty may have been established as elsewhere in Africa. Ali Bongo will have to consolidate his rule in 2010-2011 in order to alleviate social discontent, which may be more in evidence. Overall, the change of leadership poses some risk of political uncertainty, a pause in policy implementation and some disruptions to trade.

Gabon traditionally enjoys good relations with France, which is likely to provide assistance in the event of a financial crisis. Relations with the US will remain good because of US interest in the region as a strategic source of oil. Relations with China continue to deepen as the latter has become an increasingly important trading partner, resulting in the outline of a partnership in 2007. Relations between Gabon and Equatorial Guinea are strained due to a long-lasting maritime boundary dispute over potential oil reserves, although a military confrontation is unlikely. Otherwise, regional relations are good. 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 Fort Lamy convention, which gave the Gabonese government the right to nominate the governor of the Banque des Etats de l'Afrique Centrale (BEAC, the central bank of CEMAC), was recently abandoned in favour of a rotating governorship of CEMAC's member countries, following the dismissal, by Ali Bongo, of the Gabonese former BEAC governor who had been implicated in a corruption scandal. While this reflects a loss of influence of Gabon in the region, Ali Bongo may in turn gain in respect regarding his campaign pledge to tackle graft. Gabon's relations with the IMF have been mixed. The Fund is generally supportive of Gabon, but major slippages in agreed programmes have occasionally led to suspension of funds.

Economic Stability

Gabon has abundant natural resources, especially crude oil, and was the fifth largest oil producer in Sub-Saharan Africa in 2008. It also has the second largest reserves of manganese in the world, 80% of its territory is covered with tropical forest and it has good prerequisites for agriculture and fishing. The oil sector accounts for around 50% of GDP, 80% of exports and 60% of government revenue. The combination of ample oil reserves and a small population has bolstered Gabon's per capita GDP, which at an estimated USD9,500 in 2009 was among the highest in Sub-Saharan Africa. Extreme poverty is rare, but, because of high income inequality, a large share of the population remains poor.

Heavy reliance on a single commodity has rendered the economy vulnerable to external shocks. This has contributed to highly volatile annual growth rates and an overall decline in real per capita income over the past 20 years. Moreover, as a result of poor fiscal and economic management, Gabon's natural wealth has not translated into as high and sustainable living standards as might have been otherwise achievable. There are perceptions that the country has largely failed to use its ample oil revenues to diversify into other forms of economic activity and, with the maturing of old oilfields and few recent new finds, oil output is set to decline in the next years. Further, agricultural and fishing resources have been poorly utilised such that Gabon is now an importer of foodstuff. In the longer

term, the post-oil period will present a crucial economic challenge. Economic data is quite poor, often out of date, and frequently different sources are contradictory.

Gabon's economic performance suffered from the impact of the global economic downturn, in particular the sharp fall in oil prices, since mid-2008. Real GDP growth slowed from 5.6% in 2007 to 2.3% in 2008 and output is estimated to have declined by around 1% in 2009. Assuming a stabilisation in global oil prices in the range of USD70-80 per barrel, we expect GDP growth of around 2-3% in 2010-2011.

Membership of the CFA franc zone has ensured generally modest inflation over many years, although unsteady food and energy prices tend to cause some volatility. Average inflation was lifted to 5.2% in 2007-2008 as a result of high food and energy prices but the subsequent fall of these prices reduced inflation to around 3% in 2009. Inflationary pressures should remain limited in 2010-2011 as we expect the solid monetary policy of the BEAC to be continued and the CFA franc's peg to the euro, at a fixed rate of CFA655.96:EUR1, to be maintained. Moreover, membership of the CFA franc zone also provides for low exchange rate and transfer risk.

Although the impact of the global economic downturn has reduced the fiscal surplus to an estimated 1.5% of GDP in 2009 from 10% in 2008, Gabon's budget remains without problems in the near term because of ample oil revenues. In 2010, the surplus is forecast to rise again to about 5% of GDP. Total public debt, estimated at 23% of GDP in 2009, appears manageable in the next two years.

In December 2007 and January 2008, the government bought back approximately USD1.9bn or 86% of its debt to the Paris Club of bilateral creditors at a discount of 15% (or 20% in the case of France). In order to raise the needed funds, Gabon successfully issued a 10-year bullet Eurobond with an annual yield of 8.2%, which generated around USD1bn. As a result, Gabon's external public debt burden has improved substantially to comparatively low levels, estimated at 18% of GDP or 35% of export earnings in 2009. Moreover, the external public debt-service ratio has fallen to less than 10% in 2009-2010.

The current account has also benefited from sound oil revenues and posted impressive surpluses of more than 10% of GDP annually in 2004-2008. We expect lower surpluses of about 3% in 2009 and 6% in 2010. Foreign exchange reserves stood at USD1.8bn in September 2009, sufficient to cover more than five months of imports or, in other terms, all external debt payments falling due in 2010.

Summarising, as a result of high oil revenues in 2004-2008, the risk of a debt or external liquidity crisis has significantly declined and continued fiscal and current account surpluses have improved the short-term macro-economic outlook. Yet, the economic situation is not sustainable in the longer term, as Gabon will face serious challenges stemming from declining oil production, weak social indicators and its perceived failure in reducing poverty levels and strengthening the non-oil sector.

Structural Business Environment

The Structural Business Environment is well below average, with serious impediments to strong, sustainable growth. High barriers to trade have persisted. Foreign investors are, in principle, welcome, but they face a range of obstacles in several areas. Property rights are relatively well protected on paper, but the government interferes heavily in the judiciary. The level of regulation is high and public administration weak, with anti-corruption laws enforced ineffectively. Transfers and payments to most countries must be officially approved. The level of government participation in the economy has remained high and price controls are a frequent source of concern. Infrastructure is inadequate. Privatisation has continued to progress slowly and has mainly shifted certain businesses from a public to a private monopoly, thus not resulting in an improvement of services.

The banking system is small, poorly developed, and remains government-influenced. Most banks are at least partially state-owned. The ratio of non-performing loans to total loans has improved from 16% in 2004 but was still considerable at 8% in September 2008 (latest data available). Financial intermediation is very low and domestic credit is limited and expensive, which makes funding for small- and medium-sized enterprises difficult. Private sector credit growth was negative in 2008 and averaged 7% in Q3 2009.

Various sources support our assessment. The World Bank's *Doing Business 2010* index ranks Gabon 158th out of 183 countries and the Heritage Foundation's *2010 Index of Economic Freedom* assigns it rank 116 out of 179 economies. Transparency International's *Corruption Perception Index 2009* ranks Gabon 106th out of 180 countries with a score of 2.9 on a scale from 0 (highly corrupt) to 10 (clean).

Charts

