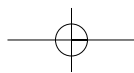
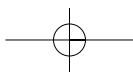
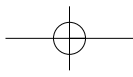


Gabon





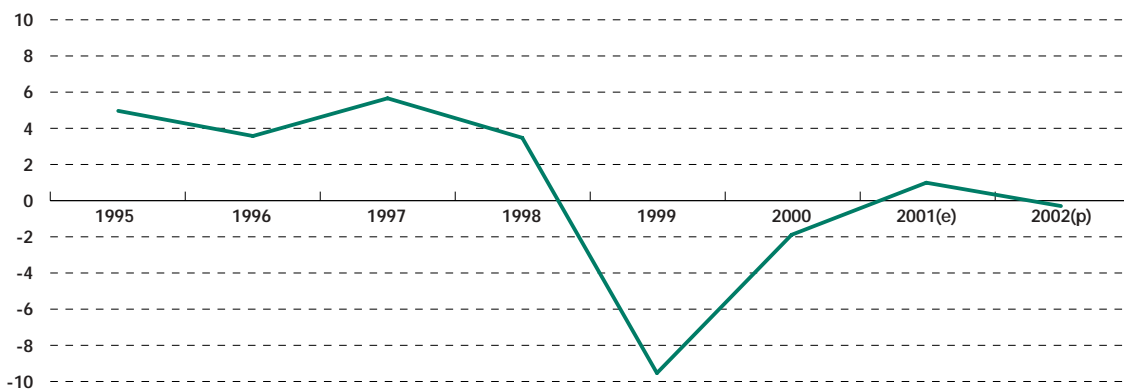
Gabon

WITH AN ANNUAL PER CAPITA income of more than \$4 000 in 2000, Gabon is one of Africa's richest countries. But in 1999, it went through a serious economic crisis after a bad trade year in 1998 and substantial budgetary indiscipline. The sharp fall in oil prices plus the Asian crisis dealt a heavy blow to export earnings, mostly from oil and timber. A partial recovery from mid-2000 was based on increased timber exports and higher oil prices. Renewed investment obtained by easing financial constraints saw a timid

resumption of growth in 2001 (about 1 per cent). In 2002, the new drop in the price of oil and lower production is expected to bring GDP growth down to -0.3. The economy's great dependence on oil as extraction declines preoccupies the government, especially as Gabon has poor social indicators despite its high per capita income as well as a heavy external debt for which it cannot claim relief under the Heavily Indebted Poor Countries (HIPC) Initiative.

Due to its oil resources, Gabon is one of Africa's richest countries

Figure 1 - Real GDP Growth



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

Recent Economic Developments

Gabon has a wealth of raw materials, including oil, minerals and timber, but is especially dependent on oil, which provides more than three-quarters of all export earnings, 60 per cent of government revenue and about 40 per cent of current GDP. In 2000, it rose to 49 per cent of GDP because of high prices. The country is increasingly concerned about falling production. The oil companies operating in the country (including Shell and Elf, which account for 95 per cent of production) estimate that extraction will have shrunk by half in 2005 (falling from more than 120 million barrels a

year to about 65 million). This drop in production, foreseen in 2000, has been postponed by the opening-up of smaller deposits that high prices have made feasible to extract. To stimulate the sector and attract new investors, the government has revised the contracts with the oil companies and granted more production licences. The companies have also begun to think about deep-water offshore exploration, though this is not yet feasible in view of current world prices.

The country's second biggest resource, timber, was once the mainstay of the economy. The sector was badly affected by the Asian crisis in 1998, but quickly

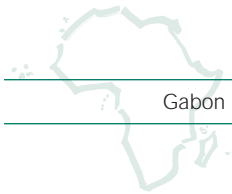
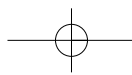
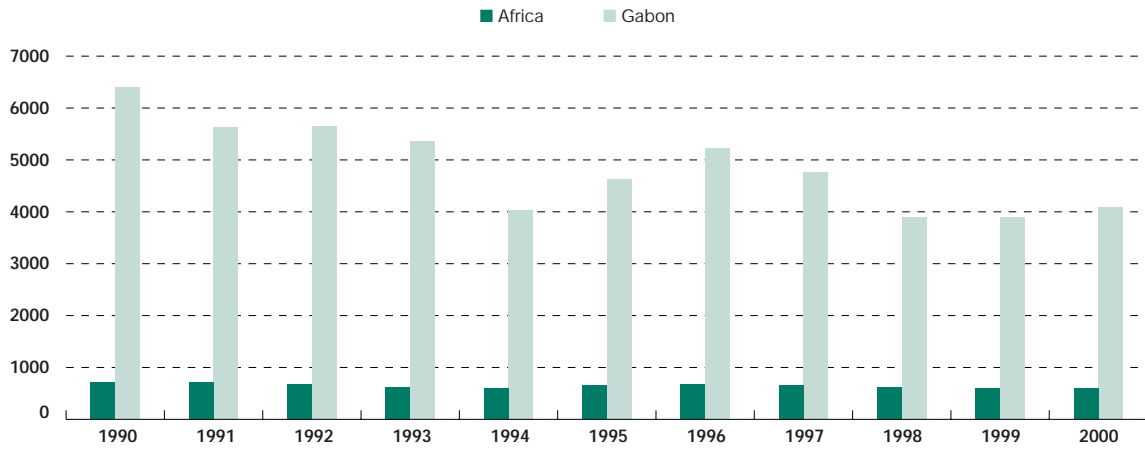


Figure 2 - GDP Per Capita in Gabon and in Africa (\$ current)



Source: Authors' estimates based on IMF data.

recovered in 2000 (growing by about 8 per cent) after a thorough reorganisation of the national timber company SNBG, which included paying off debts to producers. New forestry regulations were announced to make the industry more efficient and encourage mechanisation. From August 2001, the sector was partly privatised and the producers no longer had to go through the SNBG to sell their timber abroad¹. They were allowed to export a quota of unprocessed logs, though not more than the volume of processed timber they sold.

Gabon has a rich mining sector based mostly on manganese since the end of uranium extraction in June 1999. The vigour of the sector is shown by the opening of an iron alloy plant in Moanda in January 2001 that will allow it to reach full capacity during that year. Mining is regulated by a new mining code.

After oil was discovered in the late 1950s, agriculture was neglected. Farming was doing quite well in the 1960s but now accounts for less than 4 per cent of GDP. Many peasants moved to towns (where 75 per cent of the population now lives), leaving a labour shortage in the countryside. The government wants to diversify export crops (encouraging coffee, cocoa, rubber, palm oil and sugar) as a way of preparing for the effect of shrinking oil resources and to persuade people to stay

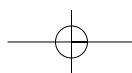
in rural areas. But a short-term obstacle is the general disorganisation of agro-industry after the state's withdrawal from it, with palm oil and rubber production completely halted. Agricultural growth is also badly impeded by the poor communications network, low world prices and lack of support structures.

Another sector the government would like to encourage is fishing. But it is hard to make an inventory here because most fishing is done by foreign fleets.

The industrial sector is very small. Processing of oil and timber is limited to a small refinery (750 000 tonnes annual capacity) at Port Gentil and a few wood-processing plants. Only 7 per cent of timber exported in 1999 was processed, though several planned sawmills should boost this figure. Apart from a few agro-industrial factories, the processing element in the secondary sector has been neglected in favour of handling raw materials.

Construction is a major part of the sector, however, though it was badly hit in the 1999 crisis by big cuts in public investment and the reluctance of the private sector due to the government's failure to pay its bills. Clearing the government's domestic debts should help restore confidence, though budgetary demands will not allow a major resumption of public investment.

1. Except in European and Mediterranean markets.



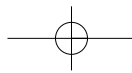
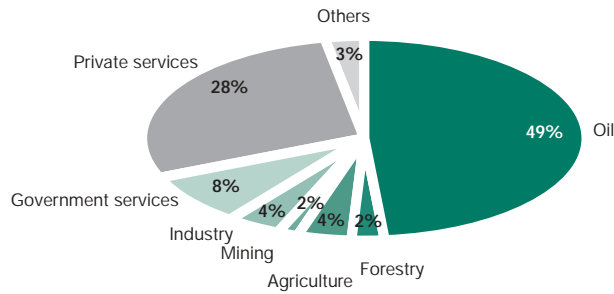
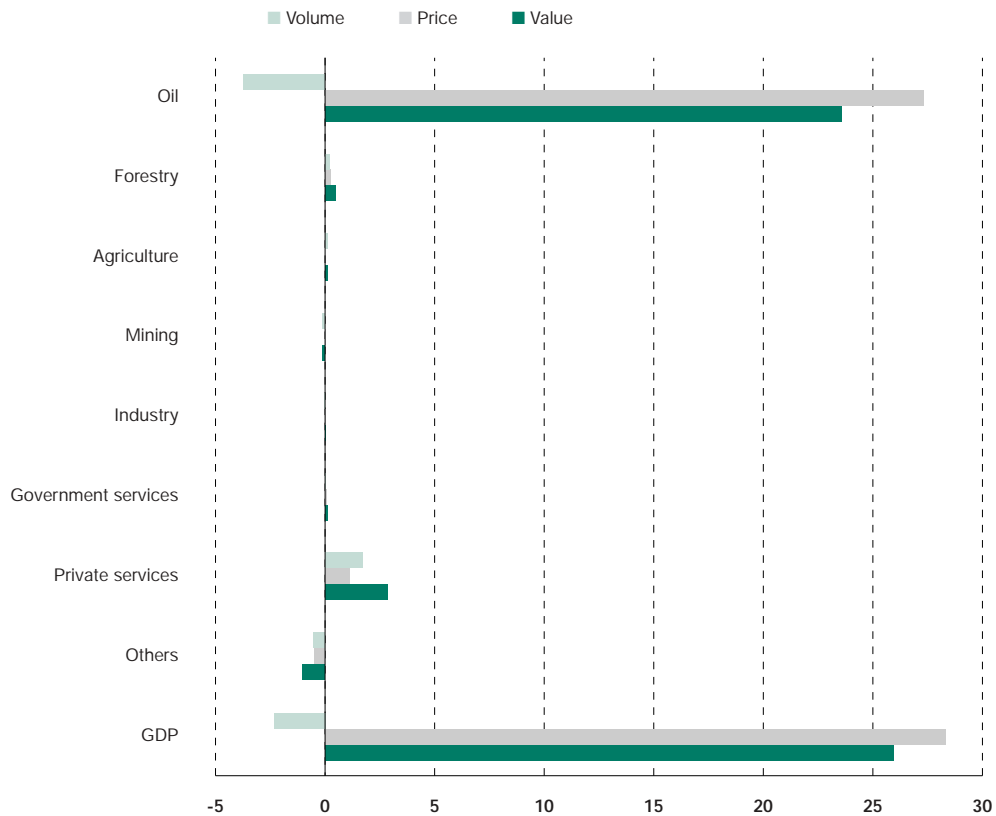


Figure 3 - GDP by Sector in 2000



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

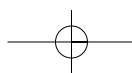
Figure 4 - Sectoral Contribution to GDP Growth in 2000

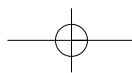


Source: Authors' estimates based on data from *Direction Générale de l'Économie*.

The tertiary sector accounts for about 40 per cent of GDP, mainly services, and, after a decade of stagnation, expanding telecommunications. The vibrancy of this sector makes it a motor of the economy that the government is concentrating on as it prepares

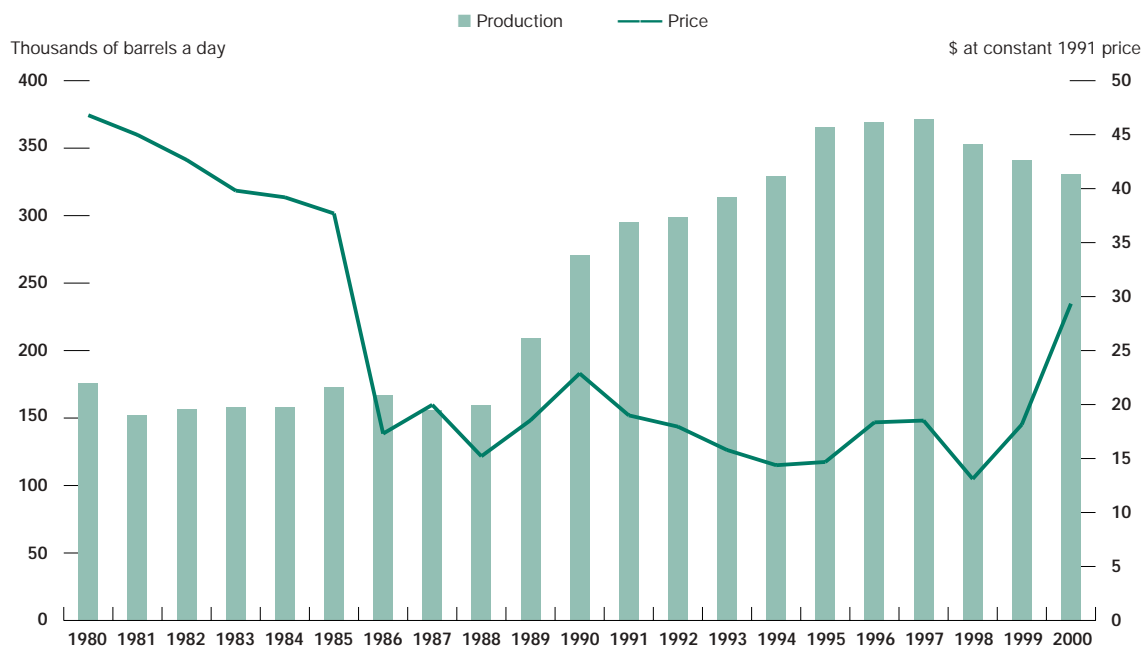
for life after oil. One plan is to develop the coastal area for tourism, but climate and the cost of air transport makes mass tourism an unlikely prospect. Gabon could be a regional service centre, however, developing oil-related activity and becoming a recreational base.





 Gabon

Figure 5 - Oil Production and Prices in Gabon



Source: Energy Information Administration.

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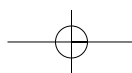
The share of non-traded services is also very large, with much of the population working for the government. Gabon has 40 000 civil servants in a population of 1.2 million, twice as many as in other African countries. But since devaluation in 1994, the informal sector has grown faster in response to the fall in real wages and to fewer public sector job opportunities.

Unlike other African countries, investment is a substantial part of Gabon's GDP. Budgetary indiscipline in 1997 and 1998 led to a surge in public investment. This has since been curbed and there are no major public projects underway at present. Since 2000, greater government revenue from higher oil prices has somewhat boosted investment. The predicted drop in oil production is expected to erode the external balance as from 2002.

Table 1 - Demand Composition (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Oil production	39.2	27.0	36.7	47.6		
GDP excluding oil	60.8	73.0	63.3	52.4		
Gross capital formation	23.7	36.4	24.2	22.3	26.7	30.2
Public	5.5	11.2	4.2	3.1	4.1	4.8
Private	18.2	25.2	20.0	19.2	22.5	25.4
Consumption	52.7	64.1	54.8	45.6	52.6	58.2
Public	14.1	20.4	14.7	11.9	13.1	13.8
Private	38.6	43.7	40.1	33.8	39.5	44.4
External sector	23.6	-0.6	21.0	32.1	20.7	11.6
Exports	57.5	46.1	56.1	64.7	64.1	57.5
Imports	-33.9	-46.7	-35.1	-32.6	-43.4	-45.8

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



Macroeconomic Policy

Budgetary and Monetary Policy

In 1998, the fall in oil prices and timber export problems linked to the Asian crisis led the government to stimulate the economy with higher public spending. This laxness, encouraged by the election campaign in December 1998, led to serious fiscal indiscipline and the overall deficit rose to 14 per cent of GDP, the primary deficit to 6.3 per cent. The bigger deficit caused the government to suspend payments and relations with the IMF were broken off. Since then, however, the government has made a great effort to reduce spending to pre-1998 levels. Drastic cuts were

made in public investment and wages and civil service hiring were frozen except in the social sector, which is weak in Gabon. As a result, a new arrangement was signed with the IMF in October 2000 in the form of an 18-month stand-by credit of \$119 million.

With better prices, oil revenue exceeded estimates in 2000 and amounted to two-thirds of total state revenues. Non-oil tax revenue also held up well, especially from the VAT. This recovery produced a primary surplus of 17.7 per cent of GDP. The government also continued to pay off its domestic arrears, including pay rises and the wages of new staff unpaid because of bureaucratic delays.

Table 2 - Public Finances (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Total revenue and grants^a	29.5	34.5	28.7	33.8	33.8	31.4
Taxes	10.8	15	11.1	10.5	11.7	12.4
Oil	17.9	18.8	13.0	22.8	21.7	18.6
Total expenditure and net lending^a	26.7	48.5	27.5	22.0	25.0	
Current expenditure	21.2	34.7	23.3	19.0	21.1	
<i>Excluding interest</i>	<i>12.7</i>	<i>27.1</i>	<i>16.4</i>	<i>13.1</i>	<i>14.5</i>	<i>15.4</i>
Wages and salaries	7.2	7.7	7.5	6.1	6.7	7.2
Interest payments	8.5	7.6	6.9	5.9	6.6	
Capital expenditure	5.5	13.7	4.2	2.9	3.9	4.5
Primary balance	11.3	-6.3	8.1	17.7	15.3	11.6
Overall balance	2.8	-14.0	1.2	11.8	8.8	

a. Only major items are reported.

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

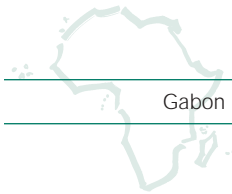
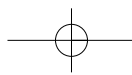
The government was in trouble again in 2001. The restructuring of Air Gabon required a huge unexpected cash injection, external debt servicing was very large (615 billion CFA francs — more than \$860 million), internal arrears had to be paid and parliamentary elections in December loomed. Halfway through the financial year oil and non-oil revenue were below expectations, but relatively steady current expenditure should help maintain a strong primary surplus in both 2001 and 2002.

Like other CEMAC countries, Gabon's exchange rate is pegged to the French franc and its monetary policy is in the hands of the BEAC, leaving budget policy as

the country's main economic instrument. Since the 1994 devaluation, inflation has been well under control and should be around 0.4 per cent in 2001 and 2002.

External Position

Abundant natural resources and thus greater purchasing power compared to other African countries make Gabon a major exporter and importer. It exports mostly oil (75 per cent of exports in 1999), timber (16 per cent) and manganese (6 per cent) and more half of all exports go to the United States. Imports are mostly food products (20 per cent in 1999 and the country is far from being self-sufficient in food),



chemicals and transport equipment and more than half of all imports come from France.

Gabon has an overall trade surplus that fell sharply in 1998 as unfavourable international conditions and increased public spending led to a substantial drop in exports and a sizeable increase in imports. In 2000, better oil prices produced a record trade surplus. Resumption of private investment, which had been strongly

discouraged by budgetary problems and the Asian crisis, and the revival of household spending increased imports from OECD countries by 31 per cent (according to OECD data). However, the sharp rise in the value of oil exports more than made up for this. The trend continues in 2001 and 2002, although the smaller quantity of oil exported and declining international prices will reduce the trade surplus.

Tableau 3 - Current Account (percentage of GDP)

	1995	1998	1999	2000	2001 (e)	2002 (p)
Trade balance	35.2	17.9	36.4	43.4	39.8	32.1
Exports of goods	53.3	42.5	54.6	63.5	62.4	55.9
Imports of goods	-18.1	-24.6	-18.2	-20.1	-22.5	-23.8
Services balance	-13.7	-18.5	-15.2	-13.1		
Factor income	-14.3	-13.6	-15.4	-17.9		
Current transfers	-4.0	-4.5	-3.9	-3.4		
Current account balance	3.1	-18.7	1.9	9.0		

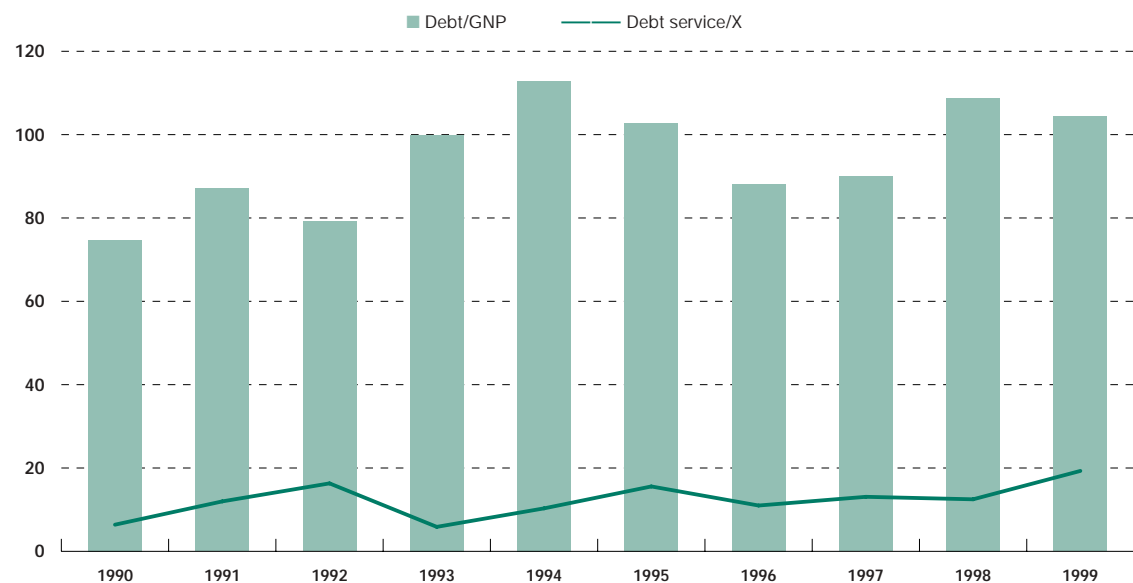
Source: Authors' estimates and predictions based on IMF and domestic authorities data.

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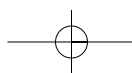
Gabon has accumulated a large external debt, much of it during the period of major construction in the late 1980s, notably the building of the Trans-Gabon railway. Devaluation automatically increased the CFA francs part

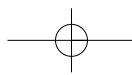
of the debt. The government guaranteeing the liabilities of some semi state-owned firms, such as the water and electricity company SEEG and the post and telecommunications authority OPT, increased it further.

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



Source: World Bank (2001), *Global Development Finance*.





The debt burden is especially heavy because it is not made up of soft loans, so interest payments are high (more than half of all tax revenue between 1995 and 2000). Also, because of the country's relatively high per capita income, it cannot benefit from the HIPC Initiative.

From 1998, because of the fall in oil prices, the government began running up arrears which led it to suspend debt payments. Since then, it has been trying to correct both the external and internal debt situation. In December 2000, Gabon negotiated the rescheduling of the debt with the Paris Club. But since the eligible debt (before cut-off date) is only a tiny part of the total, the rescheduling will not be much help. It concerns arrears of 400 billion CFA francs (\$562 million) that have been rolled over to after 2004, but interest payments due in 2001 amount to 615 billion CFA francs (\$864 million).

The internal debt is more under control. An audit in 2000 enabled some of it that concerned duplications, over-billing or fraud to be wiped out. An eight-year repayment schedule was drawn up and the government began making repayments in 2000.

Structural Issues

Despite delays, the government is keeping to the timetable for structural reform, focusing on the public sector.

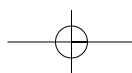
The institutional climate has been strengthened by implementation of a new labour law in October 2000. Civil service reform is going ahead, with a census of employees completed in October 2000 and a new organisational chart in March 2001. A law reorganising the structure of government is also planned, with a chart for each ministry, and the system of government contracts has been made much more transparent. But despite setting up an institutional framework to encourage private initiative, the reforms are not all being followed through. Parliament approved an investment charter and rules of competition in 1998, but these have not yet been put into effect. Business

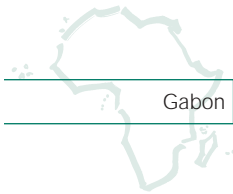
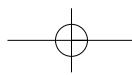
people continue to deplore the amount of government red tape and point to the many illegal special taxes they say are hindering the growth of the private sector. The government intends to stamp out these practices and special taxes are specifically banned in the 2001 budget, but some ministries and local authorities are still imposing them to compensate for late payments from the central government.

The public sector is very extensive in Gabon and a 1973 law automatically gives the state 10 per cent of the shares of any new private company. A privatisation programme was finally begun in 1997 with the handover of 51 per cent of the water and electricity company *SEEG* to the *Vivendi* group. This was not a cash deal but an agreement by the new owners to greatly reduce the cost of the services provided and invest 300 billion CFA francs (\$421.5 million), including extension of the network. This was followed in 1998 by privatisation of the sugar enterprise and the Trans-Gabon railway and in 2000 by the state cement company. A legal dispute has arisen over the railway, with the manganese firm *Comilog* refusing to agree to higher freight charges. The dispute is being examined by the International Union of Railways. The privatisation is not being challenged, only the policy of the new owners.

Recently however, privatisation has run into problems that argue for slowing it down. Some firms, including the agro-industrial firms *Agrogabon* (palm oil) and *Hevegab* (rubber), have drawn no buyers after calls for tenders by the government. Others need to be thoroughly reformed before they can be put on the market. The post and telecommunications authority was split into *Gabon Poste* and *Gabon Telecom* before the latter was privatised and the former restructured. The ports and harbours authority has greatly reduced its workforce and promised to rebuild the dockside at Libreville. A consultancy firm was to draft a plan in late 2001 for its privatisation, due to be completed by the end of 2002.

The tricky case at the moment is privatisation of *Air Gabon*, whose importance is shown by the fact that it is in the hands of the minister of finance himself rather than the privatisation committee. Because it is a national





symbol, bearing the national flag, the government is reluctant to sell it off. The company is to be completely restructured before a number of shares are offered to the public. It has already been audited and its fleet greatly reduced. Lufthansa Consulting has been chosen to draw up an operating plan for the airline.

Unlike other franc zone countries, Gabon's banking sector has not undergone any big crisis and so has avoided substantial restructuring. This is because very early on it adopted rules similar to those in Europe which carefully controlled credit policy. There are five commercial banks (apart from two others being wound up), the largest of them the BICIG, with 50 per cent of the market, whose small size does not allow for much competition. Despite a tense situation in 1998 and 1999 because of government arrears with the banks, the system is considered sound and the banks have healthy liquidity and solvency. But still only 3 per cent of the population have a bank account. Banks such as BICIG and UGB attract some of the civil servant customers, who are valued because salaries are paid on time in Gabon. However, a lot of savings are not channelled into the system for want of proper structures or because they are recycled into the informal sector, which involves substantial cost and risks of over-indebtedness. The lack of funding mechanisms hampers the private sector. Long-term finance and medium-term loans (required by small and medium-sized firms) are needed. A debate is underway about using the post office, currently being restructured, to provide loans to small entrepreneurs through its solid and extensive network in the countryside.

Gabon's transport infrastructure is weak and a major block to development. It was built during the oil boom years and is mostly in the towns, where 75 per cent of people live, but there are serious problems of maintenance. The port is too small and in poor condition.

Within the region, Gabon's large GDP makes it a leading member of CEMAC, and with its population of only 1.2 million, belonging to a bigger regional grouping should allow it to get advantages of scale. But regional transnational companies are few for want

of infrastructure and because of nationalist sentiments. So throughout the sub-region, identical structures are found, such as sugar and oil refineries, whose profitability is negligible in a small market like Gabon.

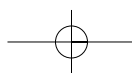
Political and Social Context

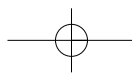
Gabon became a multi-party democracy in March 1991 with promulgation of a new constitution and parliament's approval of a political parties charter. President Omar Bongo, in power since 1967, was the first head of state elected under the new system in 1993 and was re-elected in December 1998 for a seven-year term.

Gabon is politically fairly stable. Riots have occurred, notably in 1993 after the death of an opposition figure during the elections, but economic development is not hindered by instability, which comes mainly from outside, especially due to the proximity of the Democratic Republic of the Congo, in which Gabon is involved because of President Bongo's political mediation there.

Gabon's per capita GDP, in terms of purchasing power parity, makes it a middle-income country, in fourth place among sub-Saharan states, after South Africa, the Seychelles and Mauritius. But despite its wealthy economy, there is much poverty in rural areas and growing pressure on urban infrastructure because of an exodus from the countryside. Along with this poverty goes very unequal income distribution, with 80 per cent of the total salaries in the private sector being shared by 20 per cent of its workers but by only 2 per cent in the public sector.

The social situation deteriorated during the 1990s because of considerable cuts in public investment due to the growing external debt burden. The trend accelerated in 1999 with extensive layoffs in the mining and oil sectors (Shell left Port Gentil), while the public sector kept its 40 000 or so employees (or even went the other way, with non-permanent staff rising from 8 005 in 1997 to 10 646 in 1998 because of elections before falling to 6 760 in 1999). The UNDP puts total





unemployment at 20 per cent with large regional disparities and with Port Gentil especially affected.

Despite not belonging to the HIPC Initiative, Gabon has just begun drafting an anti-poverty strategy, but the lack of any civil society impedes collection of data as well as government communication with the people targeted.

Gabon's health indicators are comparable 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 poor social indicators when set against the country's wealth are not due to low investment in health², but to poor organisation and a shortage of medical personnel. The government's official policy has always been to favour the main urban areas to the detriment of basic infrastructure. Many rural clinics have closed for lack of trained staff willing to be posted to the countryside. To remedy the problem, 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, but the authorities have realised the seriousness of the problem and launched a big awareness campaign. They have also signed an agreement with the pharmaceutical companies to cut the price of drugs by 90 per cent.

Gabon introduced universal education in the 1960s, so primary school enrolment is high compared with elsewhere in Africa. In 1993, the gross enrolment rate was about 140 per cent (the sub-Saharan average is about 80 per cent). The figure comes out at a net rate of 90 per cent, which indicates a high level of repeated years. Despite lack of reliable data, full-time attendance by school-age children has clearly fallen since the early 1990s. Only 40 of every 100 children complete primary school (from the age of 6 until 10) in the normal time.

Because there is no limit to how many years can be repeated, the age range of pupils is very wide, with some as old as 20 before they finish.

This poor educational performance is linked to meagre resources both personally and in the school system itself. Since the mid-1990s, the government has had trouble recruiting teachers because of low pay and people's reluctance to work in the countryside. This produces an ageing corps of teachers and classroom overcrowding, with some in Libreville having as many as 100 children. The high dropout rate comes at very heavy cost to the government, which reckons one child costs six times more than normal throughout the five years of primary school, making Gabon one of the countries where spending on education is least effective.

Enrolment in secondary and higher education is much lower than at primary level, but there is just as much inefficiency, with the secondary gross enrolment rate of 53 per cent falling to 20 per cent net. At university level, the success rate is about 10 per cent.

On top of these performance problems, several recent school years have been partly or completely lost because of strikes. The prospect of this decline in skills 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, which will also boost the plans to diversify the economy.

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

