

Gabon – Struggling to Diversify from the Oil Sector (Abstract)

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Gabon's economy contracted 0.3% in 2002 due largely to oil's poor performance. Oil GDP decline an estimated 2.4% partially offset by a slight increase in nonoil GDP of 0.6%, leading to a marginal contraction in overall GDP. As the government intensifies economic reforms and higher oil prices boost oil GDP, overall real GDP is expected to recover by 0.7M in 2003 and 1.7% in 2004.

The fiscal balance remained positive but deteriorated from a surplus of 7.6% of GDP in 2001 to 5% in 2002, reflecting the 38% decline in oil revenues. Nonoil revenues increased 27%, topping oil revenues for the first time since the early 1970s.

The tight monetary policy of the Central Bank, coupled with the government's fairly strict fiscal stance, kept inflation at about 2% a year during 2000/02. Because Gabon imports mainly from Europe and Cameroon, the appreciation of the CFA franc against the dollar did not affect domestic prices.

Government borrowing from banking system was down 14%, compared with a phenomenal increase of more than 100% the previous year. This enabled the government to redress its assets coverage ratio with the Central Bank and thus improve its position in the operation account, severely depleted in 2001 by excessive and unbudgeted government borrowing. The reduction in government credit from the banking system also made more credit available to the private sector, resulting in an increase of 23% in 2002, more than twice the 11% increase in 2001. Overall, net domestic assets increased by a modest 8.2% in 2002, while net foreign assets improved from \$10.9 million in 2001 to \$29.7% million in 2002.

The overall balance of payments is estimated to have improved significantly in 2002, mainly higher inflows of foreign investment and a reduction in the government's external debt. Even so, the level of debt stood at \$4 billion in 2002, about 109% of export earnings, with debt service payments equivalent to 37% of government revenue.

Because of mounting debt problems, social infrastructure and urban services have deteriorated. About 80% of the population in the largest city- Libreville- lives in poor neighbourhoods without adequate water, sanitation, and health facilities. Rural areas were equally affected, as transfers and government service both declined.

Poverty remains deep, with 60% of the population living below the poverty line, a level that has not changed much since independence in 1960, though the number of the extremely poor has declined significantly. At the same time, income inequality is

high, with a Gini coefficient of 0.45 for the two major cities –though probably lower for rural areas.

The Gabon development experience is a classic example of the Dutch disease. Revenues from large oil exports led to distortions in the economy, resulting in contraction of the nonoil tradable sector as relative prices shifted in favour of the nontradable sector. With the nontradable sector expanding, traditional sectors, particularly agriculture, stagnated because they had become unattractive for investment. That led to a large influx of workers – especially youths- to urban areas, swelling the urban population and unemployment.

After the first oil boom of 1973 oil replaced forestry, uranium, and manganese as the dominant sector and the driving force of economic growth. Its share of GDP reached a peak of 55% during 1980-84, and it contributed 85% of export earnings. Although oil's dominance of the economy has declined in recent years, it remains the main source of growth, contributing about 41% of GDP, 78% of export earnings, and 66% of fiscal revenues in 2000/01. Gabon is the third largest producer and exporter of crude oil in Sub-Saharan Africa.

Although the government has long recognized the need for diversification, little has been done to advance it. Unlike other commodity-dependent economies, Gabon has many unexploited opportunities in agriculture, fishing, forestry, and mining. The government's failure to take advantage of these opportunities will prove costly as oil production continues to decline – with output expected to be exhausted in 10-15 years unless new deposits are discovered. Oil earnings in the short term will delay economic stagnation, but with consequences for growth, employment, and poverty. Gabon thus appears primed for an economic setback in the medium term – and the government seems unprepared for the impending crisis. The impact of the decline in the oil sector will be felt largely through a tightening of domestic and external financing.

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