



2015 Quarter 1

Inflation - There was a marked uptick in Gabon's consumer price index (CPI) last year. The CPI averaged 4.8% higher during 2014. This is a significant increase from the previous year's 0.5% average rate. That said, the latter was artificially low. Gabon's government does not shy away from intervening in the market if it feels that consumer price pressures are becoming too great. We expect Gabon's inflation to slow over the medium term

Growth - Gabon's economic prospects still rely heavily on oil despite output declines from the highs reached in the late 1990s. We expect the sharp fall in the international oil price since mid-2014 to drag down the economic growth outlook for the Central African nation over the medium term. As such, we forecast real GDP growth to slow from 5.4% in 2014 to 3.3% this year. That said, ramped-up government infrastructure investment and buoyant growth prospects for the agro-allied, mining (non-oil related) and wood processing industries should see economic growth prospects rebound by 2018.

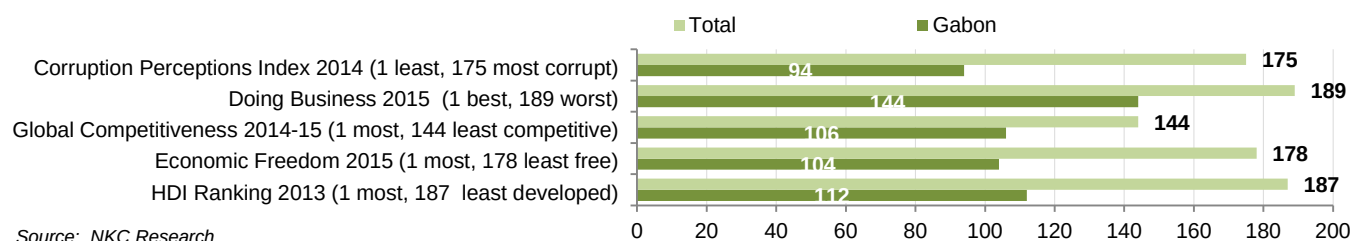
National development plan - In an attempt to diversify the economy away from its dependence on oil, the Gabonese government initiated the Strategic Plan Gabon Emergent (PSGE), an economic plan aimed at creating a diversified economy associated with the processing of the abundance of natural resources and higher value-added industries and services.

OPPORTUNITIES	STRENGTHS
In addition to existing opportunities in the dominant hydrocarbon sector, there is unexploited potential in the mining and forestry sectors.	Relatively high GDP per capita, though the skewed distribution of income is a negative.
Relatively underdeveloped financial sector provides opportunity for growth, particularly in the fast-growing banking sector.	Reasonably robust foreign direct investment (FDI) levels expected over the medium term.
Generous tax and other incentives provided in Special Economic Zones (SEZs).	External debt is low and the structure thereof is favourable.
Tourism sector remains relatively unexploited, with strong growth opportunities over the medium term.	Membership in the Monetary and Economic Community of Central Africa (CEMAC) has ensured prudent monetary policy with low and stable inflation.

VULNERABILITIES	WHAT IS BEING DONE?
Oil accounts for an estimated 43.7% of GDP and more than 80% of export earnings. This renders the economy vulnerable to fluctuating commodity prices and external demand, especially as domestic oil production is declining.	The government has prioritised economic diversification, but progress remains slow.
A lack of transparency surrounding government decision-making, widespread corruption, and inefficient public spending.	Nothing tangible. There is a general lack of reliable and up-to-date data, making economic monitoring challenging.
Challenging business environment characterised by poor infrastructure, widespread corruption and lack of transparency in government decision-making process.	Progress has been slow. Some incentives are offered to companies active in SEZs.
The occurrence of labour strikes remains an ever-present danger, while changes to labour policies could scare away foreign investors.	The process has not been very transparent.

MEGA TRENDS	
Population	1,672,597 (July 2014 est.); Age 15 - 64: 54.2%
Population growth rate (%)	1.94% (2014 est.)
Life expectancy at birth	Total population: 52.06 years; male: 51.54 years; female: 52.6 years (2014 est.)
HIV/AIDS	Adult prevalence rate: less than 3.9%; People living with HIV/AIDS: 40,688 (2013 est.)
Adult literacy rate (age 15 and over can read and write)	Total population: 83.2%; male: 85.3%; female: 81.0% (2015 est.)
Urbanisation	Urban population: 86.7% of total population (2013); Urban population growth: 2.7% (2013)
Population below \$1.25 (PPP) poverty line	6.1% (2005 est.)
Unemployment rate	19.6% (2013)
Employment (% of total)	Agriculture: 24.2%; Industry: 11.8%; Services: 64.0% (2005 est.)
Labour participation rate (% of total population ages 15+)	60.8% (2013)
Business languages	English, French
Telephone & Internet users	Main lines in use: 19,252; Mobile cellular: 3.59 million; Internet users: 153,879 (2013)

Sources: CIA World Factbook, World Bank, ITU, UNAIDS & NKC Research



Risk environment / Risk outlook

S&P	Fitch	Moody's
B+/Stable	BB-/Negative	Ba3/Stable

Standard & Poor's (S&P) lowered the sovereign credit rating for Gabon on February 13, due to the sharp oil price decline in recent months. The ratings agency lowered Gabon's sovereign rating to "B+" from "BB-", while maintaining the country's outlook at stable. Gabon's credit rating downgrade comes amidst many oil exporting nations experiencing adverse pressures on their sovereign credit ratings due to the plummeting oil price. S&P noted that the declining oil price will materially affect economic growth prospects and the government's fiscal position. The stable outlook reflects the view that upward and downward pressures on the ratings are broadly balanced.

On 5 December 2014, **Fitch Ratings** affirmed Gabon's long-term foreign and local currency Issuer Default Ratings (IDR) at "BB-", but revised the outlook on the ratings from stable to negative, suggesting there is a chance that Gabon could be downgraded over the next 18 months or so. Fitch commented that falling crude oil production and the international price rout will weigh on government revenues. In turn, the public investment drive, which underpins the Central African economy's growth prospects, will likely be dialled down further. The rating agency highlighted the possibility that expenditure will not be reduced as quickly as planned, leaving the fiscal budget under pressure.

On 12 December 2014, **Moody's Investors Service** assigned first-time local and foreign-currency ratings on Gabon. Moody's awarded Gabon a "Ba3" rating with a stable outlook. The "Ba3" rating afforded by Moody's is equivalent to Fitch's "BB-" rating. Moody's noted that Gabon's rating is indicative of the country's strong economic growth prospects, robust government balance sheet and reduced external vulnerability afforded by its membership in CEMAC with its common currency, the CFA franc, which is pegged to the euro at a fixed rate. Conversely, the country's dependence on the hydrocarbon sector for economic growth, government revenues and exports drags on the rating. Moreover, Gabon's weak governance indicators and socioeconomic disparities also affect the rating negatively.

Infrastructure	Diversity of the Economy	Banking Sector	Continuity of Economic Policy	GDP growth	Key balances	Foreign Investment	Socio-economic Development	Forex Reserves
Fairly limited	Dominated by oil sector	Relatively underdeveloped, but improving	Opaque	Moderate	Small current account surplus, budget deficit	Moderate	Medium	On the decline

Stock Market	Listed Companies	Liquidity	Market Cap	Dominant Sector	Daily Trading Volume
Bourse des Valeurs Mobilières d'Afrique Centrale (BVMAC)	SIAT Gabon	N/a	N/a	N/a	N/a
Capital Market	Development	Liquidity	Maturity Range	Municipal Bonds	Corporate Bonds
Yes	Significantly underdeveloped	N/a	N/a	N/a	N/a

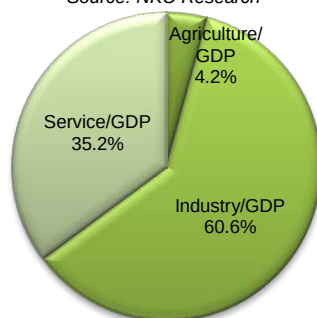
Macro-economic overview

Gabon's economy is still dominated by the hydrocarbon sector, especially for export and government revenues. To address this issue, the government is in the process of a widespread infrastructure upgrade programme in order to kick start economic growth in the non-extractive sectors. The dire state of infrastructure, in addition to the high incidence of corruption, has obstructed expansion in the non-oil economy in recent times. Still, there is immense potential for growth and as the business environment improves, foreign interest in non-traditional spheres of the Gabonese economy should increase. Some of the key developments in the wood and agro-allied industries are the establishment of a 1,126 hectare Specialised Economic Zone (SEZ) for wood processing in Nkok – near Libreville –, the development of two palm oil plantations (100,000 hectares), the establishment of a rubber plantation (28,000 hectares) and the construction of a \$2bn fertiliser plant in the free trade zone of Port-Gentil. Furthermore, Gabon's membership of CEMAC is a source of great monetary stability: the regional central bank, the Banque des États de l'Afrique Centrale (BEAC), follows a prudent approach to monetary policy, while the currency peg to the euro removes a great deal of exchange rate risk.

The decline in the international crude oil price in recent months has placed the Central African nation's budget under severe pressure as half of the government revenues are derived from hydrocarbon exports. As such, the government's smaller fiscal revenues will slow public infrastructure development, making the government's efforts to reduce oil sector dependence somewhat more difficult. This is worsened by the fact that the authorities have not built up significant fiscal buffers. Therefore, Gabonese authorities' success in prioritising capital outlays on growth-promoting projects in an efficient manner will be of utmost importance over the next few years and will likely determine the economy's long-term trajectory.

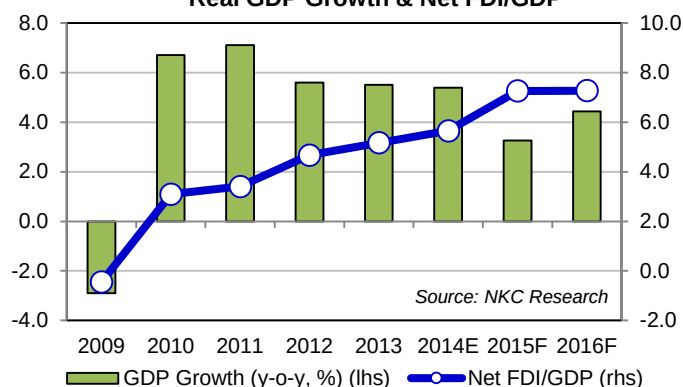
Economic Structure as % of GDP 2014 Estimate

Source: NKC Research

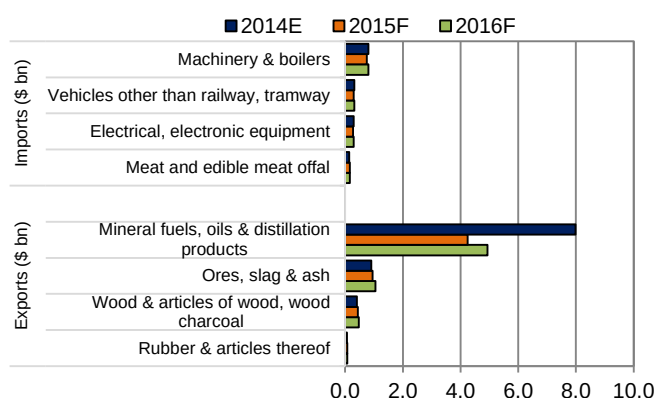


Gabon's economic operations are currently not well diversified, with a high dependence on the hydrocarbon sector. In addition to oil, the country is a global producer of manganese dioxide. As such, industry contributed an estimated 60.6% of GDP in 2014. Although the agricultural sector contributes only around 4.2% of Gabon's GDP, the sector employs around 24.2% of the labour force. Moreover, with several projects in the pipeline, the government aims to increase the contribution agriculture makes to the economy to around 15% of GDP by 2020. The services sector contributes around 35.2% of Gabon's GDP. Prospects for the services sector remain strong, especially on the back of immense potential for eco-tourism and also telecommunications as the nation's internet access increases.

Real GDP Growth & Net FDI/GDP



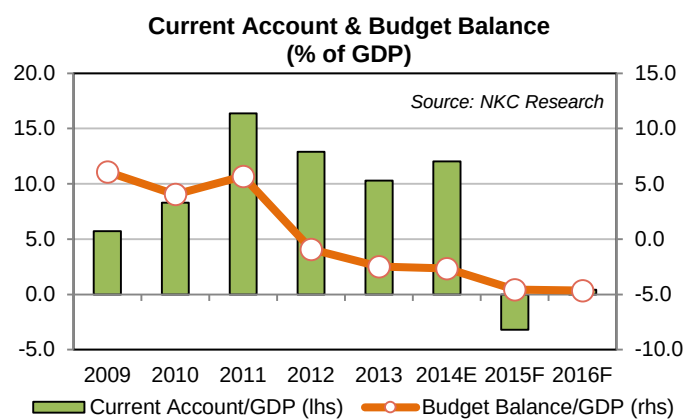
Gabon's economic growth performance has recently been quite strong – around an average of 5.9% over the past four years – on the back of a significant scaling-up of infrastructure investment, as well as historically high oil prices. However, the economic growth outlook for the medium term has worsened due to the mid-2014 oil price shock, as the hydrocarbon sector contributes around 43.7% to the Central African nation's GDP. We forecast real GDP growth to slow from 5.4% in 2014 to 3.3% this year. That said, a number of projects in the agro-allied, mining and wood processing industries, developed to foster growth in the non-oil economy, should aid the Central African nation's post oil-shock economic growth recovery. In turn, Gabon's net FDI will be historically elevated over the next few years as international firms continue to invest in the local oil industry as well as in special economic zones.



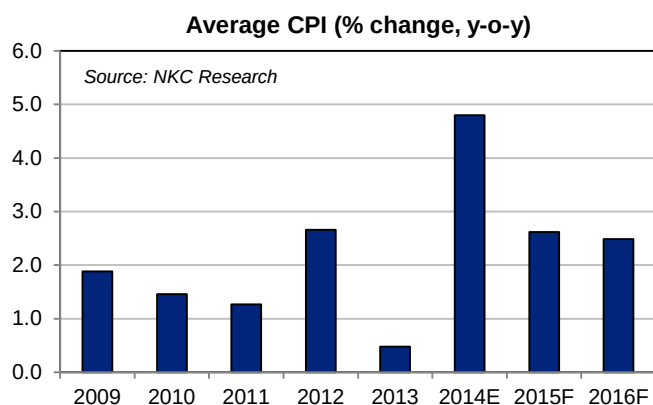
Main Imports: % share of total	2014E	2015F	2016F
Machinery & boilers	22.14	26.94	26.32
Vehicles other than railway, tramway	8.81	10.72	10.47
Electrical, electronic equipment	8.02	9.77	9.54
Meat and edible meat offal	3.85	5.74	5.44
Main Exports: % share of total	2014E	2015F	2016F
Mineral fuels, oils & distillation products	80.20	73.61	74.78
Ores, slag & ash	9.07	16.53	15.97
Wood & articles of wood, wood charcoal	4.15	7.59	7.25
Rubber & articles thereof	0.62	1.21	1.07

Gabon's external balances are largely subject to changes in oil production and prices. We estimate that hydrocarbon products made up about 80.2% of Gabon's total exports last year and this dominance is set to persist over the medium to long term. Consequently, the country's external position is highly vulnerable to fluctuations in oil prices. As such, the sharp decline in the international oil price in recent months will continue to have a severely adverse impact on Gabon's hydrocarbon exports.

The country's largest imports are capital goods, including machinery and transport vehicles, demonstrating the effect of the government's investment programme on trade. Imports are expected to decline to \$2.8bn this year, from \$3.66bn in 2014, thereafter rising over the medium term. Nevertheless, the government's smaller fiscal revenues, due to lower oil proceeds, will slow public infrastructure development somewhat, dampening capital-related imports over the medium term.



Since oil plays such a pivotal role in the Gabonese economy its effect is felt across the various balances in the current account. Pursuant to the international oil price taking a sharp dip during the latter half of 2014, at this point in time our forecast is for the Brent crude oil price to average around \$60/bbl in 2015, which is significantly less than its 2014 average price of \$99/bbl. This will have an adverse effect on Gabonese export revenues and will see the country's track record of sustained current account surpluses turn to a deficit in 2015. In turn, since the government implemented its infrastructure investment strategy after 2011, the budget surpluses experienced due to large oil revenues have become deficits. Lower fiscal revenues as a result of softer oil prices will substantially limit fiscal revenues and also impact spending outlays, especially on public investment.



There was a marked uptick in Gabon's consumer price index (CPI) last year. The CPI averaged 4.8% higher during 2014. This is a significant increase from the previous year's 0.5% average rate. That said, the latter was artificially low. Gabon's government does not shy away from intervening in the market if it feels that consumer price pressures are becoming too great. The authorities subsidise fuel, which has shielded the population from international oil price volatility. Moreover, in May 2013, the government froze or lowered prices for a range of products – including meat, fish, canned vegetables, oil and dairy products – for four months. As such, it is not impossible that there will be more government intervention over the medium term, especially if possible fuel subsidy cuts due to declining oil revenues place upward pressure on inflation. Assuming this does not happen, we expect Gabon's CPI inflation to average 2.6% this year, down from 4.8% in 2014, slowing somewhat further to 2.5% next year.

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