

# Gabon Economic Update

Special Topic:  
**Reforming  
Fossil Fuel  
Subsidies**



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# Abbreviations and acronyms

AFW	West and Central Africa
BEAC	Bank of Central African States ( <i>Banque des États de l'Afrique Centrale</i> )
bbf	oil barrel
CAR	Central African Republic
CAFI	Central African Forest Initiative
CEMAC	Central African Economic and Monetary Community ( <i>Communauté Economique et Monétaire de l'Afrique Centrale</i> )
CFAF	African Financial Community Franc (Franc CFA)
COBAC	Central African Banking Commission ( <i>Commission bancaire de l'Afrique centrale</i> )
COVID-19	Coronavirus disease 2019
EITI	Extractive Industries Transparency Initiative
EMDE	Emerging market and developing economies
FGIS	Gabonese Fund for Strategic Investments ( <i>Fonds Gabonais d'Investissements Stratégiques</i> )
FSRG	Sovereign Wealth Fund of the Gabonese Republic ( <i>Fonds souverain de la République gabonaise</i> )
GDP	Gross Domestic Product
GEF	Economically Weak Gabonese ( <i>Gabonais Economiquement Faible</i> )
IEA	International Energy Agency
IMF	International Monetary Fund
LPG	Liquefied petroleum gas
NPL	Non-performing loans
OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of Petroleum Exporting Countries
PAT	Transformation Acceleration Plan ( <i>Plan d'Accélération de la Transformation</i> )
PPP	Purchasing power parity
PSGE	Strategic Plan for an Emerging Gabon ( <i>Plan stratégique Gabon Émergent</i> )
SIHG	Gabonese Human Investment Strategy ( <i>Stratégie d'Investissement Humain du Gabon</i> )
SSA	Sub-Saharan Africa
TIAO	Policy Bid Interest Rate ( <i>taux d'intérêt des appels d'offre</i> )
UMIC	Upper-Middle Income Countries
USD	United States dollar
VAT	Value-added tax
WB	World Bank
WDI	World Development Indicators
y-o-y	Year-on-year

# Overview

*The Gabon Economic Update is an annual World Bank publication that presents an overview of the evolving macroeconomic position in Gabon, followed by a detailed exploration of a specific topic in each edition. The first chapter analyzes recent economic developments, as well as the macroeconomic outlook and risks for Gabon's future growth. It presents policy actions that could help strengthen fiscal and debt sustainability, contain food inflation, and sustain a resilient growth path. The second chapter of this year's Economic Update has a special focus dedicated to fossil fuel subsidies, which represent a growing fiscal burden in Gabon. This chapter analyzes the costs of fuel subsidies and discusses policy options for alleviating their fiscal impact while protecting the most vulnerable groups in the country. This report is based on data available as of April 2023.*

## **Gabon's economy, government revenues, and exports have all been benefiting from high oil prices and strong commodity production**

**Gabon's economic recovery picked up in 2022, supported by stronger global demand for its main commodities, especially oil, wood, and manganese.** Growth is estimated to have reached 3.1 percent in 2022, strengthening the recovery observed since the 2020 recession caused by the COVID-19 pandemic and oil price shocks. Oil production expanded in 2022, thanks to the relaxation of OPEC+ quotas and invest-

ments made in the exploitation of new oilfields. The manganese and wood industries also registered a good performance, while the services sector benefited from the removal of pandemic-related restrictions in early 2022. On the demand side, growth was mainly driven by commodity exports – which benefited from higher prices and stronger demand from China, Gabon's main trading partner – as well as private investment, notably in the oil sector.

**High oil prices and increased oil production boosted oil revenues, contributing to the strongest fiscal surplus in Gabon since the 2014 oil price shocks.**



Gabon's fiscal balance turned from a deficit of 1.9 percent of GDP in 2021 into a surplus, estimated at 3.0 percent of GDP in 2022. Over the year, total revenues increased to 18.6 percent of GDP, up from 15.8 percent of GDP in 2021, thanks to an 82 percent increase in oil revenues but also due to improved non-oil revenue performance: tax revenues increased by 48 percent in 2022. The good performance of firms in extractive sectors, combined with actions taken to support tax collection and rationalize tax expenditures, contributed to improved collection of income taxes. Meanwhile, grants represented a smaller contribution to the budget, but Gabon continued to benefit from environmental conservation initiatives. During this period, foreign grants totaled 0.15 percent of GDP, more than half of which was provided in support of environment policies, including carbon credit payments made under the UN-led Central African Forest Initiative (CAFI) in compensation for forest conservation and carbon absorption.

**Fiscal consolidation efforts allowed total public expenditure to remain under control, although the country has been facing increased pressure derived from costly fuel subsidies.** Public expenditures decreased to 15.6 percent of GDP in 2022, from 17.6 percent of GDP in 2021. One factor contributing to the containment of spending was the public sector hiring freeze from 2018 to 2022. In addition, a selective approach to public investments and a policy to contain current expenditure restrained capital expenditure and spending on goods and services in 2022. Most public investments were channeled into roads and other public works, as the Government pursued implementation of its strategic development plan (*Plan stratégique Gabon Émergent*, PSGE), due for 2025. Improvements in infrastructure are urgently needed, yet tackling the country's development challenges would also require stronger investments in human capital; as a matter of fact, health and education received fewer investments than defense and security-related areas in 2022. However, while most spending items remained under control, the cost of fuel subsidies grew exponentially during this period. Pushed by higher global energy prices, public spending on fuel subsidies grew by 138 percent in 2022, bringing total spending on transfers and subsidies to 17 percent of GDP, more than any other expenditure category except for wages. Moreover, the intensive use of tax exemptions

and benefits, partly in an attempt to curb food prices, added further pressure to the budget. Tax expenditures amounted to CFAF 351.5 billion in 2022 (2.6 percent of GDP), mainly in the form of tax benefits provided to firms in special economic zones and specific sectors, as well as VAT and customs duties exemptions and reductions used to contain living costs.

**Thanks to the economic recovery, the public debt-to-GDP ratio declined in 2022; however, cash flow management issues and the continuous accumulation of arrears pose risks for debt management and future financing costs.** Total government debt decreased from 60.7 percent of GDP in 2021 to 52.0 percent of GDP in 2022 and is expected to maintain a downward path over the medium term. The latest IMF Debt Sustainability Analysis performed in July 2022 assessed that public debt was sustainable and that risks had moderated compared to previous periods, on account of high oil revenues and expected governance reforms. However, the country has continued to accumulate external arrears in 2022 and early 2023, in spite of high oil prices and its improved fiscal balance. Gabon continues to face difficulties in public financial management, which may compromise debt sustainability, especially amid the currently tightening global financial conditions, where higher interest rates have been propelling capital movements towards advanced economies.

**Higher commodity prices and strong export performance also contributed to an improved trade balance.** Gabon's trade balance is estimated to have increased from 11.5 percent of GDP in 2021 to 43.7 percent of GDP in 2022, driven by a significant rise in exports (+40.1 percent y-o-y in nominal value), owing to high global prices and the expanded production of oil, manganese, and timber. During this period, imports increased by 10.4 percent, on the back of higher imports of intermediate and equipment goods, reflecting dynamic private investments being made in the oil and other sectors. As a result, the current account balance is estimated to have turned from a deficit of 4.7 percent of GDP in 2021 to a surplus of 6.7 percent of GDP in 2022.

## At the same time, high global food and energy prices are increasing inflationary pressures, pushing the Government to maintain costly measures to contain the rise in the cost of living

**Combined with the impact of the Russian invasion of Ukraine, the prolonged repercussions of the COVID-19 pandemic on global supply chains and other disruptions have been pushing up global food and energy prices, harming the Gabonese, especially the most vulnerable groups.** Headline inflation is estimated to have reached 4.3 percent in 2022, up from 1.1 percent in 2021. In particular, food inflation has been undermining living conditions and exacerbating vulnerability, in spite of the gradual economic recovery and the resulting gradual decrease in poverty levels. In response to inflationary trends, the Gabonese Government has maintained a policy to contain the rise in the cost of living by subsidizing and imposing ceilings on the prices of fuel, flour, and other food staples. As the country remains strongly dependent on food imports, the list of tax-exempted and price-fixed basic food products was updated in October 2022, as part of the *Lutte Contre la Vie Chère* (Fight Against an Expensive Life) program. In addition, government subsidies are used to maintain low prices for wheat flour and different types of fuel.

## Gabon's growth prospects are positive, but strong political commitment will be needed to create a viable economy in the post-oil era

**Gabon's outlook indicates modest recovery over the medium term, but external and internal vulnerabilities can compromise future growth.** Growth is projected at 3.1 percent in 2023, driven by extractives but also by agricultural production, especially rubber and oil palm. Services and public works would further contribute to growth, pushed by higher public spending related to the upcoming elections and the acceleration

of public investments to complete the Government's strategic plans (PSGE due 2025 and *Plan d'Accélération de la Transformation*, PAT, due 2023). Combined with high commodity prices, fiscal consolidation efforts would benefit the fiscal balance over the medium term. The fiscal surplus is expected to narrow to 2.1 percent of GDP in 2023 in view of higher spending during the electoral period and the ongoing high cost of fuel subsidies. However, revenue collection is expected to increase further in 2023, benefiting from still high oil revenues but also further reforms of tax expenditures and tax collection. On the external front, growth prospects in China are expected to prop up demand for Gabonese exports, but gradually declining oil prices and production are likely to reduce the current account surplus going forward.

**Due to its heavy dependence on volatile commodity prices, Gabon remains exposed to several fiscal and trade balance risks, such as potential trade shocks or changes in OPEC+ quotas.** In the first half of 2022, three commodities – oil, wood, and manganese – represented 90 percent of the country's exports. The high level of market concentration for the country's exports represents another challenge to building a solid economic base. Risks to fiscal sustainability also exist. Sharp drops in oil prices threaten to undermine revenues, but sustained high prices may push up the costs of fuel subsidies. At the same time, there is a prospect of fiscal slippages owing to the electoral period, such as increased public spending or delays in actions to cut tax benefits and tax exemptions.

**The creation of a resilient and diversified economy requires strong institutional reforms and major improvements in infrastructure and human capital.** The Gabonese authorities are aware of the country's expected decline in oil production capacity, as existing oilfields will reach maturity in coming years. Over recent decades, a number of strategies have been put in place to diversify the economy. The success of the Government's goal of promoting a solid, green, and diversified economic base would rely, to a great extent, on strong actions to improve the governance of oil revenues and extractive sectors. Together with improvements in access to finance, the business climate, employment opportunities, infrastructure, and basic

public services, such steps would be key to ensure that the country's rich natural resources are sustainably used to create an inclusive economy, capable of benefiting all Gabonese.

## **Fuel subsidies are posing a serious risk to Gabon's fiscal health – demanding strategic action to rebalance public spending, ensuring fiscal sustainability while protecting the poorest through improved and targeted social protection programs**

**The special focus of this Economic Update looks at fossil fuel subsidies, which represent a growing fiscal burden in Gabon.** In 2022, the sharp rise in international oil prices led to an increase in fuel subsidies, estimated to represent 0.7 percent of GDP. This amount represents two thirds of total public spending allocated to health, and more than half of public spending on education in the same year. In June 2022, the Government removed fuel subsidies for industrial consumption, in an effort to reduce their fiscal burden. Nevertheless, subsidies continue to represent a fiscal risk as well as an obstacle to building fiscal buffers needed to support a countercyclical fiscal policy and to respond to the country's development challenges. Furthermore, fuel subsidies introduce environmental and market distortions, preventing an efficient use of energy and the development of renewable sources of energy or the adoption of low emitting development solutions, locking countries on a higher emission development pathway in the future.

**Fuel subsidies favor the richest households.** While fuel subsidies aim at supporting consumers' purchasing power, and more particularly the most vulnerable, subsidies are not restricted to kerosene, a fuel more heavily consumed by the poorest. In fact, subsidies to diesel and gasoline largely benefit the richest segments of the population, especially groups living in urban areas. The removal of fuel subsidies (except for kerosene) would have a limited one-time effect on the price level. Such an increase would nevertheless impact

households' purchasing power, as higher fuel prices would lead indirectly to higher prices for other products and services, especially in the transport, energy, fishing, and forestry sectors. Therefore, a fuel subsidy reform requires a strong mitigation package aimed at providing targeted support to the most vulnerable segments of the population.

**Lessons can be drawn from the experience of countries that have carried out fuel price adjustments.** The international experience shows four best practices when carrying out a fuel subsidy reform: (i) prioritizing price adjustments for fuels that benefit the richest segments of the population and that represent the highest fiscal cost, for example by temporarily excluding socioeconomically strategic fuels such as kerosene from the subsidy reform; (ii) adopting a price smoothing mechanism that allows to move gradually towards market-based pricing, while offering a balance between excessive price volatility and fiscal risks; (iii) staggering the reform to allow households to adjust and the mitigation measures to be rolled out; and (iv) engaging in stakeholder consultations and carrying out communication campaigns to address the concerns of various population groups. Moreover, targeted measures should be selected to mitigate the impact on affected groups and sectors. This can be achieved by reinforcing social safety nets, increasing transparency of public financial management, increasing social spending, supporting strategically affected sectors such as transports, and increasing productive structural public investments. Country experiences illustrate a variety of possible accompanying measures to make adjustments in fuel prices socially acceptable. They show that there is not a standard single set of actions, but that these measures need to be discussed, identified, and designed to reflect the concerns and the characteristics of each country.

# Chapter 1

## Recent economic trends and outlook for Gabon

### 1. Global and regional growth has slowed, while CEMAC economies have been supported by high hydrocarbon prices

**The global economy grew by 3.1 percent in 2022, a slowdown compared to the previous year resulting from tighter monetary conditions and global trade disruptions.** Global growth has been decreasing since its peak at six percent in 2021, when it started to rebound from the COVID-19 pandemic. Trade disruptions caused by the Russian invasion of Ukraine and tightening monetary policies aimed at containing high inflationary pressures in different regions have been contributing to this slower growth. Advanced economies, including the U.S. and Europe, and most emerging markets are experiencing weaker growth. At the same time, risks of debt distress have heightened.

**Against this backdrop, economic growth in Sub-Saharan Africa has also weakened.** Economic activity in Sub-Saharan Africa slowed in 2022 to 3.7 percent (from 4.4 percent in 2021), on account of weaker external demand for non-energy commodities, tightening global financial conditions, and rising inflation. The cost of living has increased across the continent, as high-

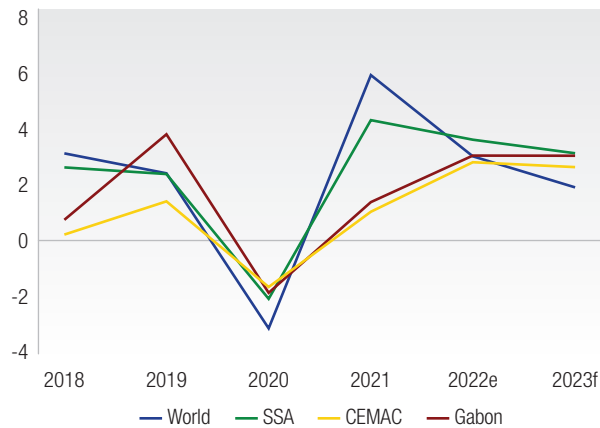
er food and fuel prices fed increased vulnerability and distress.

**In contrast, CEMAC economies experienced faster growth in 2022, thanks to higher hydrocarbon prices.** Higher hydrocarbon prices, combined with the lifting of COVID-19 containment measures, have had an overall positive impact on the terms of trade and economic growth of the region. CEMAC's economic growth is estimated to have reached 2.9 percent in 2022, up from 1.1 percent in the previous year, although both years delivered growth well short of the Sub-Saharan Africa average (Figure 1). However, while oil and gas exports have been contributing to improved regional fiscal and external balances, the fiscal costs of fuel subsidies have been increasingly weighing on the budget of CEMAC countries and limiting their ability to take advantage of rising oil prices to rebuild fiscal and external buffers (the special focus of this edition provides a more detailed discussion of the topic). Meanwhile, rising global inflation is pushing up domestic prices and impacting real incomes, and tightening global financial conditions are also constraining growth.

**The Bank of Central African States (*Banque des États de l'Afrique Centrale*, BEAC) continued to**

Figure 1

Real GDP growth (percent), 2018-2023



Sources: Global Economic Prospects and World Bank staff calculations.

Note: Preliminary data for 2022; projections for 2023.

### **tighten its monetary policy to contain inflationary pressures and ensure external viability.**

Following an extraordinary Monetary Policy Committee meeting on November 25, 2021, the BEAC increased the policy rate (*taux d'intérêt des appels d'offre*, TIAO) by 25 basis points to 3.5 percent. Further policy rate increases were adopted, to 4.0 percent in March 2022, 4.5 percent in September 2022, and 5.0 percent in March 2023. The BEAC also decreased its weekly liquidity injections from CFAF 160 billion in April 2022 to CFAF 50 billion in December 2022. Moreover, the regional central bank continues to work towards the effective application of a new foreign exchange regulation, strengthening the repatriation of foreign exchange earnings for the extractive sector as agreed in January 2022. Against this backdrop, the CFA franc depreciated in real effective terms for most of 2022 as the Euro depreciated against the US dollar. Improved terms of trade in the region, thanks to higher commodity prices, and tighter fiscal and monetary policies helped to support the buildup of regional gross reserves, which have been increasing steadily since early 2022 and reached CFAF 6,851 billion in December 2022 (up from CFAF 4,779 billion in January 2022). Foreign exchange reserves at the BEAC increased to reach the equivalent of 4.7 months of prospective imports of goods and services by end-December 2022 (compared to 4.1 months at end-December 2021).

## **2. While faced with global uncertainty, Gabon is experiencing a stronger economic recovery**

### **Gabon's economic recovery picked up in 2022, supported by good performance in the oil sector.**

Following a recession in 2020 caused by the twin COVID-19 and oil price shocks, the Gabonese economy expanded by 1.5 percent in 2021 and is estimated to have further grown by 3.1 percent in 2022 (Figure 2a). Despite the temporary stoppage in one important field in 2022Q2, oil production is estimated to have increased by 6.1 percent in 2022 thanks to the relaxation of OPEC+ quota restrictions on oil production and the exploitation of new fields. In the absence of any major oil discovery in recent years, oil companies made significant investments in 2018 and 2019 with the aim of increasing the capacity of the country's mature oil fields. Their returns were, however, temporarily compromised, as Gabon was forced to cut its production both in 2020 and 2021 in order to comply with OPEC+ requirements (Figure 3a and Figure 3b).

### **Manganese and wood production and the services sector also supported stronger non-oil activities.**

The strong performance of manganese production sites, the exploitation of new mines, and the good management of product delivery in wood exports enabled the non-oil sector to further sustain growth in 2022, despite a difficult international context. In 2022, production of manganese and logs increased by 4.5 percent and 5.9 percent (y-o-y), respectively, thus boosting non-oil activity. Meanwhile, wood-related industries are estimated to have grown by 9.5 percent, down from a 34.5 percent growth in 2021. Despite the establishment of new factories, wood industry production experienced lower growth in 2022 due to the drop in demand in the wake of the slowdown in global growth. Additionally, the increased energy bill, as a result of higher fuel prices for industrial consumers since June 2022, weighed on firms' operating costs. Wood production, particularly by factories located outside the Nkok Special Economic Zone, also suffered from the low supply of logs. Finally, the services sector, while seeing its recovery somewhat hampered by the higher fuel prices for firms, also contributed to the recovery (with 2.2 percent growth



in 2022), thanks to the lifting of all COVID-19-related restrictions in early 2022.

**On the demand side, growth was mainly driven by commodity exports and private investment, notably in the oil sector** (Figure 2b). Private investment was supported mostly by the strong dynamism of the oil sector. Oil sector and non-oil sector investments are estimated to have increased by 11.1 and 3.6 percent (y-o-y) respectively in 2022. Boosted by the high level of oil

prices and improved global economic prospects for the sector, oil companies have increased their investments in order to maximize the profitability of existing oil fields. While the current global economic context has become challenging due to the war in Ukraine, global demand for commodities remained strong in 2022, benefiting Gabonese exports, which are estimated to have increased by 7.3 percent in 2022. In particular, oil exports and wood exports are estimated to have increased by 5.8 percent and 9.5 percent (y-o-y) respectively in 2022.

Figure 2a

Gabon: Supply-side contribution to real GDP growth (in percent), 2018-2023

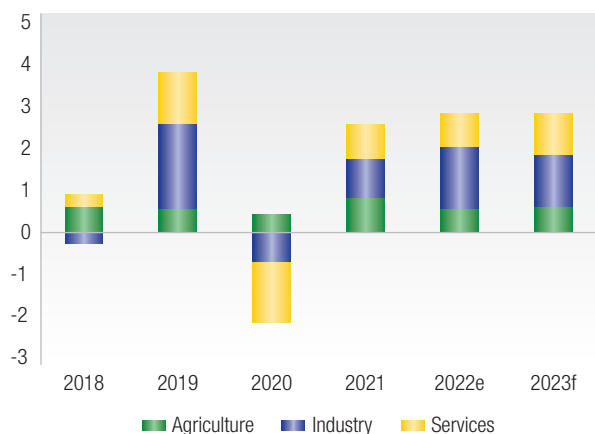


Figure 2b

Gabon: Demand-side contribution to real GDP growth (in percent), 2018-2023



Figure 3a

Gabon: Oil production (thousand metric tons) and oil price (USD per bbl), 2018Q1-2022Q4

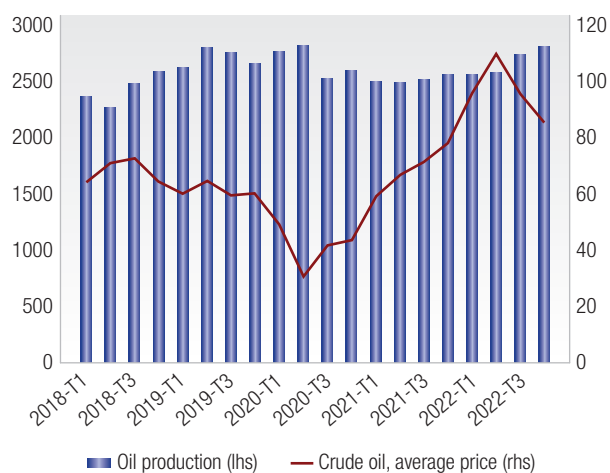
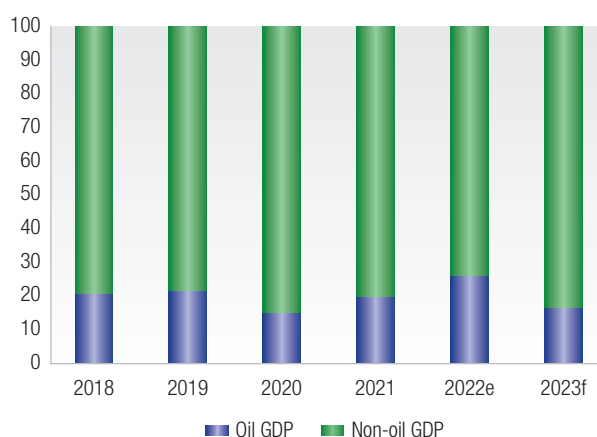


Figure 3b

Gabon: Oil vs. non-oil GDP (percent of total GDP), 2018-2023



Sources: Gabonese authorities, World Bank Commodity Price Data, and World Bank staff calculations.  
Note: Preliminary data for 2022; projections for 2023.



### 3. Despite the recovery, increased inflationary pressures exacerbated household vulnerability

**Inflationary pressures increased in Gabon in 2022, a result of high global food and energy prices and rising shipping costs.** After a modest inflation of 1.1 percent in 2021, the inflation rate for 2022 is estimated to have reached 4.3 percent, standing 1.3 points above the regional convergence criteria (Figure 4). Headline inflation stood at 4.5 percent by end-March 2023 (y-o-y), slightly lower compared to end-2022. During this period, food prices rose by 7.6 percent (y-o-y). Prices of imported products were also on the rise (5.1 percent), fueled mainly by disruptions in global supply chains and rising prices in several economies.

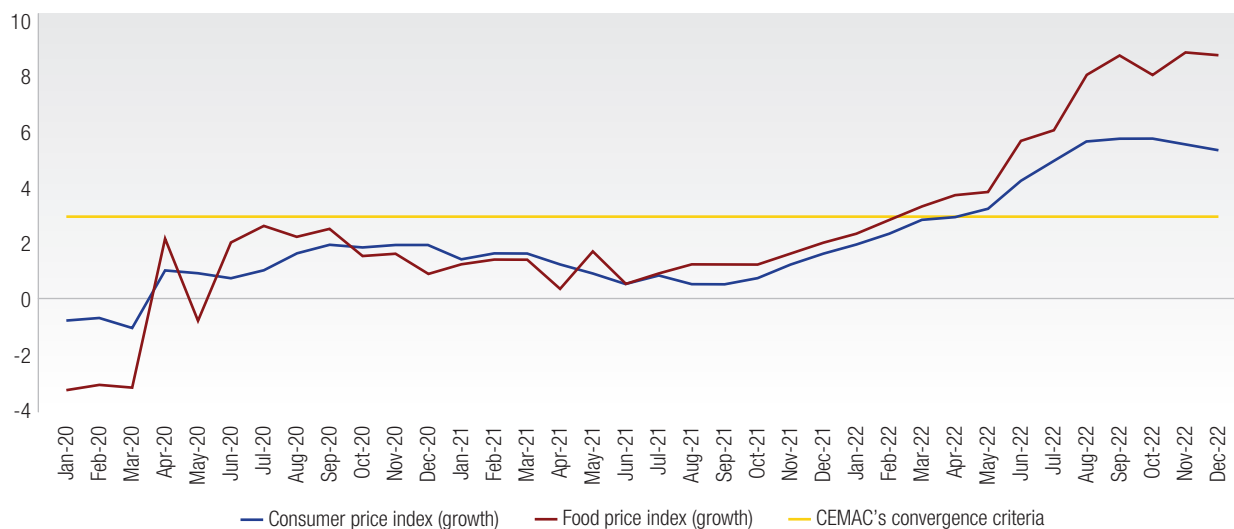
**However, compared to many economies in the region and elsewhere, Gabon's annual inflation rate has remained relatively contained so far, thanks to a series of fiscal measures aimed at moderating price pressures.** The authorities took several actions to limit disruptions in the supply of imported staple foods and contain the rising cost of living, as Gabon is strongly dependent on food imports. In October 2022, the Government increased the frequency of inspec-

tions aimed at enforcing price controls, to make sure that economic operators apply the agreed prices for main staple food items. These measures come in addition to the *Lutte Contre la Vie Chère* (Fight Against an Expensive Life) program, which was launched in 2017 and was therefore already in place before the onset of the war in Ukraine. This program consists of tax exemptions granted to selected imported basic items to protect the most vulnerable from high food prices. In addition, food subsidies are applied to maintain low prices for wheat flour. As for energy prices, in April 2021 the Government introduced a price freeze on fuel products. These policies enabled Gabon to contain energy prices in recent months, with a 0.5 percent increase registered (y-o-y) in December 2022. While these tax exemptions and subsidies have been useful in containing the rise in living costs, they have been adding important spending pressures to the fiscal position. As a result, actions have been taken since October 2022 to reduce gradually the list of tax-exempted goods, in order to rationalize tax expenditures and improve the fiscal balance; these may underlie the continuously high food inflation experienced in late 2022.

**While the poverty rate is estimated to have decreased in 2022, the COVID-19 pandemic, combined with the war in Ukraine, exacerbated house-**

Figure 4

Inflation (monthly, y-o-y, in percent), January 2020-December 2022



Source: Gabonese authorities.

**hold vulnerability.** Thanks to the recovery, poverty is estimated to have been slowly decreasing. The national poverty rate is estimated at 32.9 percent at end-2022, down from 33.6 percent in 2021.<sup>1</sup> Although the gradual economic recovery started in 2021 and has been increasing its pace in 2022, living conditions have not yet returned to their pre-crisis level. Vulnerability increased as a result of food inflation; almost 37 percent of households reported experiencing high food prices in July 2022, based on the World Bank High Frequency Phone Surveys. The Gabonese Government subsidizes and imposes ceilings on the prices of fuel, flour, and other food staples, but retail prices for several food staples have been increasing at marketplaces. With more than 85 percent of households consuming bread, rice, and refined vegetable oil on a daily basis, inflationary pressures brought by the conflict in Ukraine (a major wheat exporter) and other disruptions affecting global supply chains have continued to impact the poor and the middle class. Additionally, the recovery of the private sector, in particular for small and medium enterprises, has been partly hampered by the rise in the price of fuel products – fuel subsidies were removed for industrial consumers starting in June 2022. Thus, insufficient job creation may have further weakened household consumption in 2022. Private consumption is estimated to have slightly decreased over this period, by 0.2 percent.

#### 4. Firms experienced an increased access to credit

**Despite tightening monetary policy and the Government's strong reliance on financial markets (both international and regional), financing available for the private sector was on the rise in 2022, supporting the country's economic recovery.**

Despite rising interest rates, credit to the private sector increased by 13.6 percent in December 2022 (y-o-y), while credit to the Government increased by 9.7 percent (y-o-y) over the same period. This increase in credit to the economy reflects both improvements in Gabon's public finances (with an estimated fiscal surplus of 3.0 percent of GDP in 2022) and the confidence of the private sector

in the national economic outlook. As had happened in 2021, purchases of Government securities by commercial banks increased in 2022 (+30.4 percent y-o-y) in order to absorb the increased issuance of bonds and Treasury bills. This movement has been in line with the Government's financing strategy, which relies heavily on the regional financial market. As a result, Gabonese banks' exposure to sovereign assets increased, with bonds and Treasury bills representing 16.6 percent of banks' total receivables at end-December 2022.

**However, the rise in non-performing loans (NPL) in 2022 revealed signs of fragility within the Gabonese financial sector.**

As a response to the economic impacts brought by the COVID-19 pandemic, a temporary regulatory forbearance was applied by COBAC (*Commission bancaire de l'Afrique centrale*), the regional banking regulator, until July 2022. Concomitant to the end of this forbearance, the volume of NPLs on the balance sheets of Gabonese banks started to increase, after two consecutive years of decline. NPLs went up by 34.8 percent at end-2022 (y-o-y), reaching 10.5 percent of total loans in 2022, against 8.3 percent in 2021. The rise in NPLs could also be explained by delays in the implementation of the authorities' plan to clear domestic arrears, which has been underway since October 2020. Despite the adoption of several reforms over the years to improve cash flow management, Gabon has once more accumulated both domestic and external arrears in 2022.

#### 5. The fiscal balance improved but fuel subsidies are increasingly weighing on the budget

Fiscal developments

**High oil prices and expanding oil production boosted oil revenues and led to the strongest fiscal surplus in Gabon since the 2014 oil price shocks.** Since the pandemic, Gabon's fiscal balance had been registering deficits (2.1 percent of GDP in 2020 and 1.9 percent of GDP in 2021), but in 2022 it

<sup>1</sup> Based on the upper middle-income poverty rate (individuals living with less than USD6.85 per day in 2017 PPP). Estimates are calculated based on the 2017 Gabon Poverty Assessment (*Enquête Gabonaise pour l'Evaluation et le Suivi de la Pauvreté*).

turned into a surplus estimated at 3.0 percent of GDP. Over the year, total revenues reached 18.6 percent of GDP (compared to 15.8 percent of GDP in 2021). A major contribution came from oil revenues, which grew by 82 percent in 2022 and represented 7.1 percent of GDP (Figure 5). The exploitation of new fields and the relaxation of OPEC+ quotas benefited oil production, while prices remained high throughout the year.

**Domestic revenue mobilization efforts also contributed to improved non-oil revenue performance.** As the COVID-19 restrictive measures were fully removed only in the first quarter of 2022, tax policy reforms introduced in the 2022 budget law focused on broadening the tax base, improving the tax collection system, and reducing tax exemptions. Actions taken to support tax collection and rationalize tax expenditures contributed to a 48 percent growth in tax revenues, which reached 11.1 percent of GDP in 2022 (compared to 9.2 percent of GDP in 2021). Among these actions, the Government streamlined CIT and VAT incentives, such as by limiting tax benefits for firms in the Nkok Special Economic Zone, removing VAT exemptions for the construction sector, and increasing VAT rates on cement. The Government also pursued its ongoing efforts

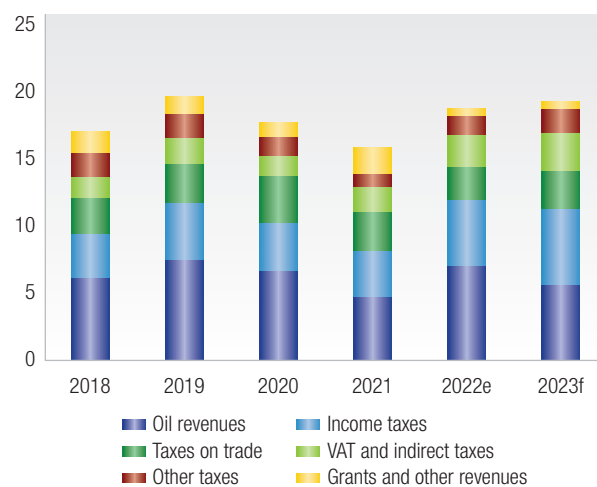
to register and locate taxpayers who have relocated their businesses, and promote the payment of taxes and customs duties through bank transfers, checks or electronic transfers.

**During 2022, tax revenues were derived mostly from income taxes.** Representing 4.8 percent of GDP, these included corporate and personal income taxes and, to a minor extent, taxes on property and investment income. In particular, revenues from income taxes grew by 75 percent in 2022, as a result of the good performance of firms operating in industries such as hydrocarbons, wood, and manganese, coupled with actions to reduce tax incentives. The corporate income tax paid by oil firms represented nearly 40 percent of all income taxes, highlighting the country's strong reliance on its hydrocarbon industry. Meanwhile, in 2022 taxes on trade and on goods and services amounted to 2.5 percent of GDP and 2.3 percent of GDP, respectively. The bulk of consumption taxes came from VAT, which amounted to 74 percent of domestic indirect taxes and a third of revenues from customs. Excise duties, the Special Solidarity Contribution (*Contribution Spéciale de Solidarité*, CSS, aimed at financing support for vulnerable populations classified as GEF, *Gabonais Economiquement Faibles*), and an array of other smaller taxes and contributions also apply on domestic consumption, imports and exports. The streamlining of VAT exemptions and reductions, as well as rising spending in nominal terms due to inflation, contributed to a considerable growth in indirect taxation (+50 percent in 2022).

**Grants and other revenues were expected to have a smaller contribution to the budget, but Gabon continued to benefit from environmental conservation initiatives, showcasing the economic potential of a well-managed environment protection policy.** Non-tax revenues amounted to 0.4 percent of GDP in 2022, most of which came from investments in social and infrastructure projects and general budget support provided by Gabon's national funds, the Sovereign Wealth Fund (*Fonds souverain de la République gabonaise*, FSRG), and two funds financed by oil firms (the *Provision pour investissement diversifié*, PID, and *Provision pour investissement en hydrocarbures*, PIH). Foreign grants totaled 0.15 percent of GDP; notably, more than half of these were

Figure 5

Oil and non-oil revenues (percent of GDP), 2018-2023



Sources: Gabonese authorities and World Bank staff calculations.

Note: Preliminary data for 2022; projections for 2023. Other taxes include items such as tax fines and taxes on forestry. Other revenues include the state's participation in oil, mining, and other companies, revenues from licenses, permits, and others.

provided in support of environment policies. Carbon credit payments made under the UN-led Central African Forest Initiative (CAFI) to compensate Gabon for forest conservation and carbon absorption represented one fourth of foreign grants. The country also expected to receive foreign support for projects such as managing human-elephant conflicts, creating model parks, and building a sanctuary for sharks. Although constituting a modest share of the budget at present, foreign support for environmental policies has substantial potential for Gabon, which can be promoted through the adoption of good governance practices and compliance with transparency requirements.

**In spite of actions taken to rationalize tax expenditures, total foregone revenues amounted to CFAF 351.5 billion in 2022 (2.6 percent of GDP).**

Tax expenditure include tax benefits provided to certain sectors such as transport, telecom, wood, construction, and oil exploration, and to firms located in special economic zones. In addition, VAT and customs duty exemptions and reductions are granted as part of a strategy to contain rising living costs (under the *Lutte Contre la Vie Chère*, Fight Against an Expensive Life, program). Measures to reduce the fiscal cost of tax expenditures have been strengthened since 2021. For example, a reduced VAT rate of five percent has been progressively applied on basic imported goods which were previously tax exempt. Corporate income tax benefits have also been reduced. As a result, as a percentage of total tax revenues, the amount of foregone revenues declined from 31.7 percent in 2021 (equivalent to 2.9 percent of GDP) to 23.1 percent in 2022 (2.6 percent of GDP). During 2022, the tax authority carried out an initial study on the effective use of tax incentives in certain sectors and, as a next step, plans to expand the study to more sectors and take action to limit the undue use of these incentives. As they still represent a considerable loss in revenues, further measures to improve the control and verification of incentives, as well as to rationalize their use, would be a relevant step to secure revenue mobilization over the coming years.

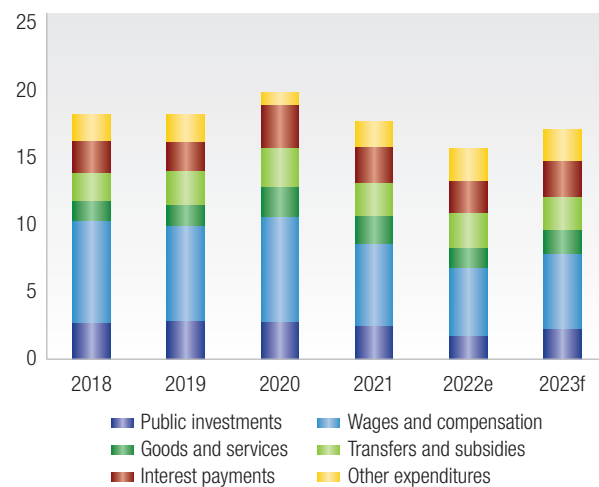
**Meanwhile, the pursuit of fiscal consolidation resulted in a stable wage bill and other expenditure**

**items, except for spending on fuel subsidies.**<sup>2</sup> The increasing cost of fuel subsidies has been consuming the fiscal space; in 2022, the Government spent more on fuel subsidies and other transfers than on all public investments. Over the year, a 33 percent rise was registered in spending on transfers and subsidies, bringing it to 17 percent of total expenditures. However, public expenditures as a whole decreased during this period, representing 15.6 percent of GDP in 2022 (down from 17.6 percent of GDP in 2021 – Figure 6). A first factor contributing to contained spending was the hiring freeze imposed on the public sector between 2018 and 2022 (with a few exceptions for priority sectors such as health, education, and security). This action ensured that the wage bill remained stable, though spending on payroll consumed about a third of total public expenditure in 2022.

**The authorities continued their selective approach to public investment and a policy to contain current expenditure, but there is room for strengthening the focus on spending on physical and human**

Figure 6

**Current and capital public expenditures (percent of GDP), 2018-2023**



Sources: Gabonese authorities and World Bank staff calculations. Note: Preliminary data for 2022; projections for 2023. Other expenditures include spending on social assistance and health-care (*Caisse nationale d'assurance maladie et de garantie sociale*, CNAMGS), VAT refunds, COVID-19 response, earmarked expenditures, and other items.

<sup>2</sup> Please refer to the thematic chapter of this Economic Update for a detailed analysis of fiscal costs and other aspects of fuel subsidies in Gabon.

**capital.** In 2022, capital expenditures and public spending on goods and services represented about ten percent of total spending each; compared to 2021, they decreased by, respectively, fifteen percent and eight percent. According to the Government’s investment plans, most public investments would be directed to roads and other public works. These amounted to CFAF 98 billion in 2022 (44 percent of self-financed investments), as the Government pursued the implementation of its strategic development plan (PSGE). During this period, the Government also expected to invest heavily in defense and security-related areas, and items such as army equipment, rescue centers and improvements in a naval base amounted to eleven percent of self-funded investments. This amount was more than the combined capital expenditures allocated to social sectors: investments in school constructions and other education-related projects were planned to reach four percent of investments, while constructions and improvements of hospitals and all other health-related investments would reach five percent of public investments. Lastly, in 2022 about seven percent of spending for goods and services was directed to cover utilities and telecom services, followed by operational expenses in different line ministries, public agencies, and sectors.

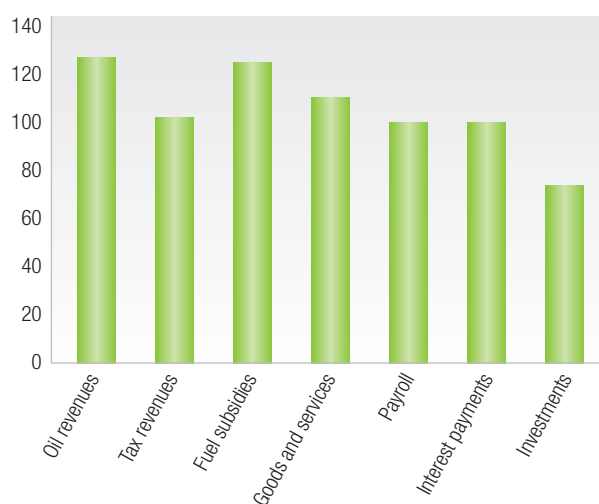
**Measures are being taken to reduce the fiscal risks arising from expanded fuel subsidies, but deeper reforms are still needed in view of still high oil prices.** To reduce the fiscal weight of fuel subsidies, in June 2022 the Government limited them to households, by starting to remove subsidies for industrial consumption. Nevertheless, current spending with subsidies reached CFAF 100.6 billion at end-2022, greatly surpassing the CFAF 8.5 billion allocated in the initial budget law for the year, due to higher than anticipated oil prices in the context of the war in Ukraine and other global trade disruptions. Fiscal risks related to fuel subsidies remain high, constraining the availability of public funds to tackle the country’s development challenges (a more detailed discussion is provided in the next chapter).

**In terms of budget execution, higher than expected revenues (especially from the oil sector) and lower investments compensated for the increased fiscal cost of fuel subsidies.** In 2022, actual spending on payroll and interest payments matched the budget-

ary allocations of the revised budget law, and public investments were executed at a lower rate (74 percent). However, spending on goods and services and on fuel subsidies were higher than foreseen by the authorities – with, respectively, an execution rate of 110 percent and a 125 percent (Figure 7). Nevertheless, during this period, the performance of oil revenues was considerably above the official predictions, while non-oil revenue performance also surpassed budgetary predictions. Together, this revenue windfall was able to offset the higher-than-expected spending on goods and services and fuel subsidies, allowing Gabon to end 2022 with a positive fiscal balance.

**Figure 7**

**Budget execution rates (percentage points), 2022**



Sources: Gabonese authorities and World Bank staff calculations.

Note: Preliminary data for 2022. Execution rates based on actual revenues and actual spending, indicated as a percentage of revenues and expenditures allocated in the 2022 revised budget law.

## Debt

**Thanks to the economic recovery, government debt declined as a percentage of GDP in 2022, giving the country more room for maneuver regarding potential recourse to external financing.**

Between 2021 and 2022, the debt stock in absolute terms grew from CFAF 6.8 trillion to CFAF 7.1 trillion, in part due to the appreciation of the USD against the CFA franc, as a significant share of Gabon’s debt stock is dollar-denominated. A stronger growth in nominal GDP,



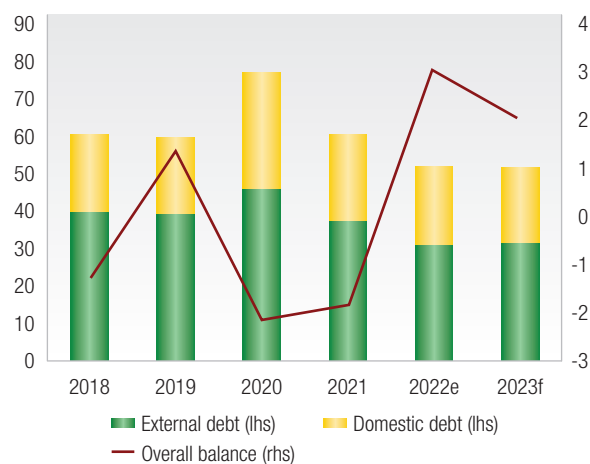
however, reduced the debt-to-GDP ratio from 60.7 percent to 52.0 percent (Table 1 and Figure 8). As of end-March 2023, external debt represented about 63 percent of total debt, consisting mostly of debt owed to multilateral creditors and Eurobonds. On the domestic side, regional financial markets and local banks were the main sources of Gabon's domestic debt (Figure 9).

**Gabon's debt trajectory is deemed sustainable in view of high oil revenues.** The country's public debt surpassed the CEMAC's regional threshold of 70 percent of GDP only once in recent decades, during the 2020 COVID-19 pandemic shocks. Its debt-to-GDP ratio has been declining since then and is expected to maintain a downward path in the medium term. The latest IMF Debt Sustainability Analysis performed in July 2022 assessed that the public debt was sustainable and that risks had moderated compared to previous assessments. More recently, in February 2023, the credit rating agency Fitch Ratings classified Gabon as B- with a positive outlook, thanks to expected governance reforms and growth prospects.

**Still, liquidity pressures and important risks related to poor cash flow management should not be neglected, as Gabon continued to accumulate both external and domestic arrears in 2022 and early 2023.** Gabon faces difficulties in public financial man-

Figure 8

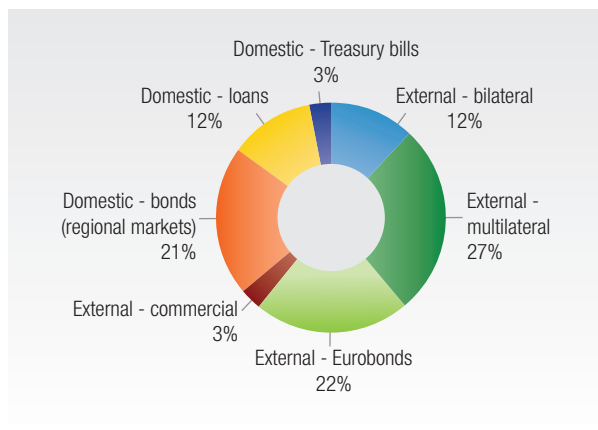
Fiscal balance and public debt (percent of GDP), 2018-2023



Sources: Gabonese authorities and World Bank staff calculations.  
Note: Preliminary data for 2022; projections for 2023.

Figure 9

Composition of public debt (percent of total debt), 2022



Sources: Gabonese authorities and World Bank staff calculations.  
Note: Data as of December 31, 2022.

agement, which can compromise debt sustainability. Even in a context of high oil prices and amid an improved fiscal situation, the Government continued to accumulate external arrears. As of end-March 2023, external arrears amounted to CFAF 81.4 billion, equivalent to 0.6 percent of GDP, raising concerns over cash flow management and increasing risks to the country's financing costs. Regarding domestic arrears, a medium-term plan for their clearance was adopted in December 2020, to reduce them gradually from CFAF 747.5 billion in 2020 to zero in 2025. While facing a delay, this plan is now gradually being implemented. Clearing domestic arrears as well as taking strong measures to eliminate external arrears and avoid their accumulation remain essential to mitigate the risks and vulnerability of Gabon's debt profile.

## 6. Higher oil prices and the lifting of OPEC+ quotas also resulted in an improved trade balance

**In 2022, Gabon's trade balance was strengthened by both higher commodity prices and higher export volumes.** Higher oil prices combined with the lifting of OPEC+ quotas on oil production led to a significant increase in export revenues in 2022 (+40.1 percent y-o-y in nominal value). As in 2021, Gabon benefited from favorable prices for manganese, which increased



Table 1

**Gabon: Selected fiscal indicators**

Percent of GDP (unless otherwise stated)	2020	2021	2022e	2023f
<b>Total revenue and grants</b>	<b>17.6</b>	<b>15.8</b>	<b>18.6</b>	<b>19.1</b>
Revenues	17.6	15.7	18.2	18.7
Oil revenues	6.8	4.8	7.1	5.7
Tax revenues	9.9	9.2	11.1	13.1
Non-tax revenues	0.9	0.6	0.0	0.0
Other revenues	0.0	1.1	0.0	0.0
Grants	0.0	0.1	0.4	0.4
<b>Total expenditures</b>	<b>19.8</b>	<b>17.6</b>	<b>15.6</b>	<b>17.1</b>
Current expenditures	16.2	13.3	11.5	12.5
Wages and compensation	7.7	6.1	5.0	5.5
Goods and services	2.3	2.1	1.5	1.8
Interest payments	3.4	2.8	2.4	2.8
Transfers and subsidies	2.8	2.4	2.6	2.5
Other expenditures	0.8	1.9	2.4	2.3
Public investments	2.7	2.4	1.7	2.3
<b>Overall balance (commitment basis)</b>	<b>-2.1</b>	<b>-1.9</b>	<b>3.0</b>	<b>2.1</b>
Primary balance	1.2	0.9	5.4	4.8
<b>Total public debt</b>	<b>77.4</b>	<b>60.7</b>	<b>52.0</b>	<b>51.8</b>
Total external debt	46.0	37.6	31.1	31.6
<i>Memo</i>				
Nominal GDP (CFAF billions)	8,816	11,211	13,731	12,810

Sources: Government and World Bank staff calculations.

Note: Preliminary data for 2022; World Bank projections for 2023.

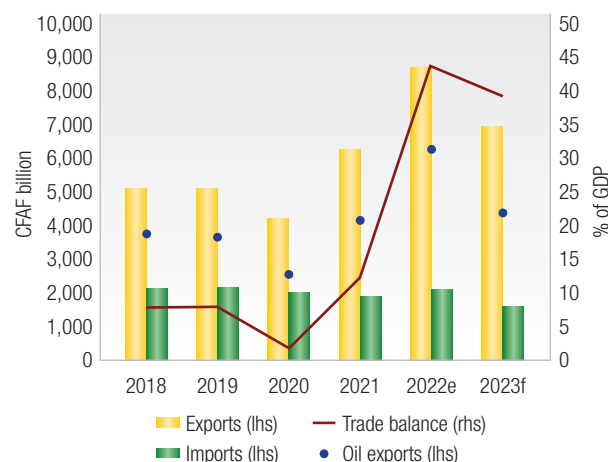
by 15.2 percent in 2022. Exports of manganese also recorded an increase in volume in 2022 (+1.3 percent). Furthermore, despite a fall in timber prices (-8.0 percent in 2022), the volume of timber exports increased by 9.5 percent in 2022. On the other hand, imports increased by 10.4 percent in 2022 (y-o-y), driven by the rise in imports of intermediate and equipment goods, reflecting dynamic private investments being made in the oil and other sectors such as agriculture, forestry, fishing, and aquaculture. In addition to the increase in volumes, high import prices also contributed to higher import values recorded in 2022. The fact that some countries needed to redirect their oil imports following the war in Ukraine also benefited Gabon.

**As a result, Gabon's trade balance and current account balance are estimated to have improved considerably in 2022, with the country's contri-**

**bution to regional reserves also significantly increasing.** Gabon's trade balance is estimated to have increased from 11.5 percent of GDP in 2021 to 43.7 percent of GDP in 2022 (Figure 10). The current account balance is estimated to have strongly improved, from a 4.7 percent of GDP deficit in 2021 to a 6.7 percent of GDP surplus in 2022 (Figure 11). Foreign direct investment remained a dynamic driver of external financing flows in 2022. Gabon increased its contribution to the regional foreign exchange reserves at the BEAC, reaching an estimated CFAF 6,851 billion (or the equivalent of about 4.7 months of imports of goods and services) at end-December 2022.

Figure 10

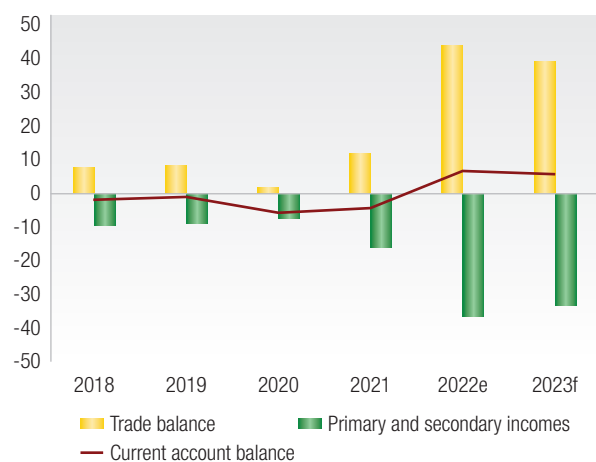
Gabon: Trade balance, 2018-2023



Sources: Gabonese authorities and World Bank staff calculations.  
 Note: Preliminary data for 2022; projections for 2023.

Figure 11

Gabon: Current account balance (percent of GDP), 2018-2023



## 7. Economic outlook

### 7.1. Global growth is projected to decelerate sharply

**Global economic activity is set to decelerate sharply in 2023 as a result of synchronized monetary policy tightening to contain high inflation, less favorable financial conditions, and ongoing disruptions from the war in Ukraine.** Global growth is expected to decelerate sharply to 2.1 percent in 2023 (from 3.1 percent in 2022) (Figure 12, left panel). The sharp downturn in growth is expected to be widespread. The United States and the Euro area are undergoing a period of pronounced weakness, and the resulting spillovers are exacerbating other headwinds faced by emerging market and developing economies. The combination of slow growth, tightening financial conditions, and heavy indebtedness is likely to weaken investment and trigger corporate defaults. Further negative shocks — such as higher inflation, even tighter monetary policy, financial stress, deeper weakness in major economies, or rising geopolitical tensions — could push the global economy into recession.

Global growth is expected to decelerate sharply to 2.1 percent in 2023 (from 3.1 percent in 2022) (Figure 12, left panel). The sharp downturn in growth is expected to be widespread. The United States and the Euro area are undergoing a period of pronounced weakness, and the resulting spillovers are exacerbating other headwinds faced by emerging market and developing economies. The combination of slow growth, tightening financial conditions, and heavy indebtedness is likely to weaken investment and trigger corporate defaults. Further negative shocks — such as higher inflation, even tighter monetary policy, financial stress, deeper weakness in major economies, or rising geopolitical tensions — could push the global economy into recession.

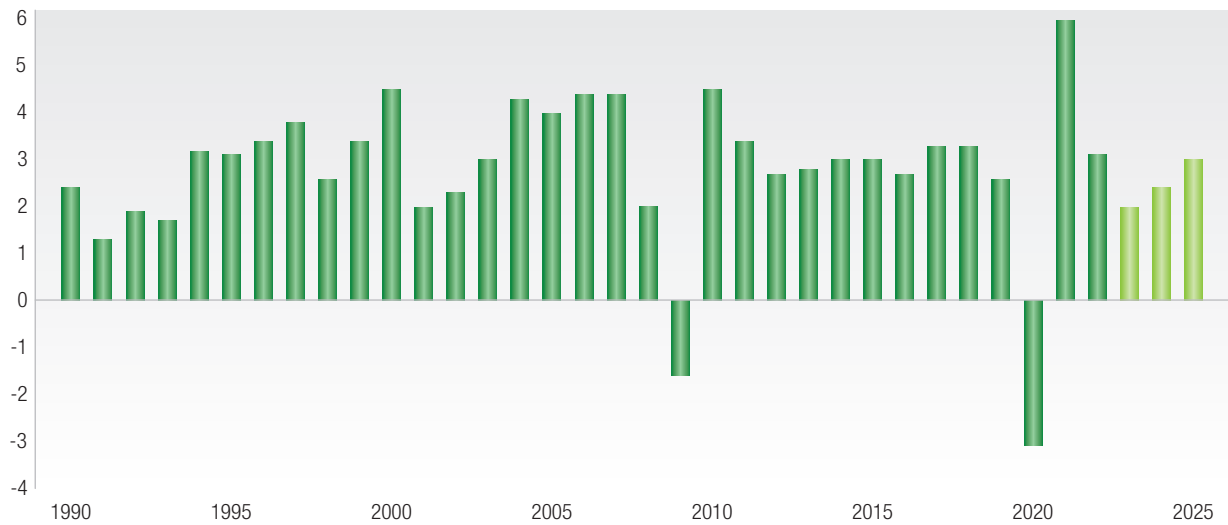
**In Sub-Saharan Africa, growth in 2023-2025 is projected to remain below long-term averages in several economies.** Economic growth in the region is projected to remain modest in 2023 at 3.2 percent (from

3.7 percent in 2022) before picking up to about four percent on average in 2024-2025 (Figure 12, right panel). Per capita income in the region as a whole is expected to grow by only about one percent a year on average in 2023-2025, half a percentage point below its trend rate before the pandemic. In the CEMAC region, economic growth is projected to slow down marginally, with an average real GDP growth of 2.7 percent in 2023 and 2.9 percent in 2024-2025. Even though an expected moderation of global commodity prices should temper increases in the cost of living, tighter policy stances to address elevated inflation and public debt will weigh on domestic demand. Subdued growth will make it difficult to reverse increases in food insecurity and poverty. Meanwhile, weakening growth in advanced economies is expected to pose headwinds for external demand, particularly among exporters of industrial commodities. Risks are tilted to the downside. A more pronounced weakness in major economies, further increases in global interest rates, higher and persistent inflation, fragility, and increased frequency and intensity of adverse weather events could further slow growth across the region, exacerbating poverty and leading to debt distress in some countries.

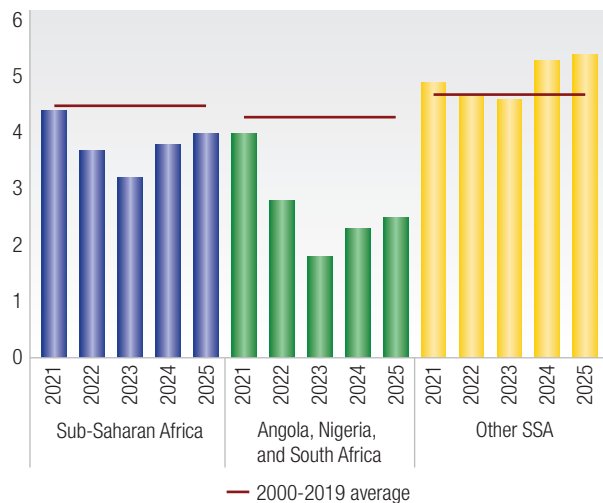
**Despite these challenging global and regional contexts, considerable growth in Asia's largest economies is expected to benefit Gabonese exports.** In the first half of 2022, nearly three quarters of Gabon's

Figure 12. Global growth prospects (percent)

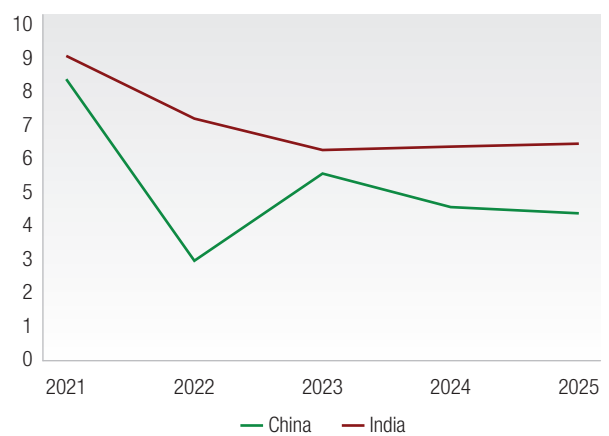
Global growth



GDP growth in SSA



GDP growth in Gabon’s main export markets



Source: Global Economic Prospects.

Note: Data for 2023 and onward are forecasts. For global growth, the sample includes up to 37 advanced economies and 144 emerging market and developing economies. Aggregate growth rates are calculated using real U.S. dollar GDP weights at average 2010-19 prices and market exchange rates. Other SSA excludes Angola, Nigeria, and South Africa.

exports were directed to countries in Asia. Seven out of the ten top destinations for Gabon’s exports were located in Asia, including China and India, which absorbed, respectively, 34 percent and 11 percent of Gabon’s exports in the same period. After having experienced reduced growth in 2022 – at 3.0 percent, the second weakest growth rate since the 1970s – the Chinese economy is expected to grow by about five percent in 2023 and in 2024, benefiting from the lifting of pandemic-related restrictions. India is also expected to maintain

strong growth rates, at about 6.4 percent in 2023-2024. These favorable growth prospects are expected to benefit Gabon’s economy.

7.2. Gabon has favorable growth prospects but faces important risks to growth and diversification

**Gabon’s outlook remains favorable over the medium term but is subject to several downside**

**risks, due to factors such as its heavy reliance on volatile commodity markets.** Despite the risks of global low growth or recession, Gabon's growth is projected to average 3.0 percent in 2023-2025, thanks to a strong performance forecast for its extractive sectors (Figure 13). Oil production is projected to increase by 3.1 percent (y-o-y) in 2023 but would start to decline gradually from 2025 onwards due to the natural maturity of existing oil fields, an issue that highlights the need for a strong reform agenda for a successful transition to a post-oil economy. In the meantime, the wood and manganese sectors are expected to remain strong growth drivers, with an average increase in production of 8.6 percent and 7.6 percent, respectively, over 2023-2025. Agriculture (especially rubber and oil palm) and services would also sustain growth, as well as public works, pushed by higher public spending in view of the upcoming elections and by an increase in investments to finalize the implementation of the PSGE, expected to be completed in 2025.

**Combined with high commodity prices, public policies to promote domestic revenue mobilization and contain both debt and expenditures are expected to benefit the fiscal balance over the medium term.** The fiscal surplus is expected to narrow

to 2.1 percent of GDP in 2023 owing to higher spending (17.1 percent of GDP) in the context of upcoming elections and the high cost of subsidies. However, revenue collection is still expected to increase, reaching 19.1 percent of GDP in 2023, because of still high oil revenues and the tax reforms introduced in the 2023 budget law. Among the measures adopted in the budget law, the single property tax started to be effective in January 2023, replacing previous property taxes and is expected to generate higher revenues. Short- to medium-term plans mentioned in the law for taxation include the streamlining of tax expenditures, the implementation of VAT on e-commerce, an increased taxation of tobacco products, improvements in tax administration, and efforts to promote digital tax payments. In terms of expenditures, the 2023 budget law lists measures to contain spending, such as imposing a ceiling of 102,388 public agents, slightly below the ceiling adopted for 2022. Other planned efforts include improvements in the control over public entities and in budget execution.

**However, risks of fiscal slippages are high in view of the upcoming elections, with fuel subsidies and tax expenditures posing challenges to fiscal soundness.** Tax expenditures and fuel subsidies represent an important cost for public finances, amounting to

Figure 13a

Expected growth in key sectors (real growth in CFAF billion), 2022-2025

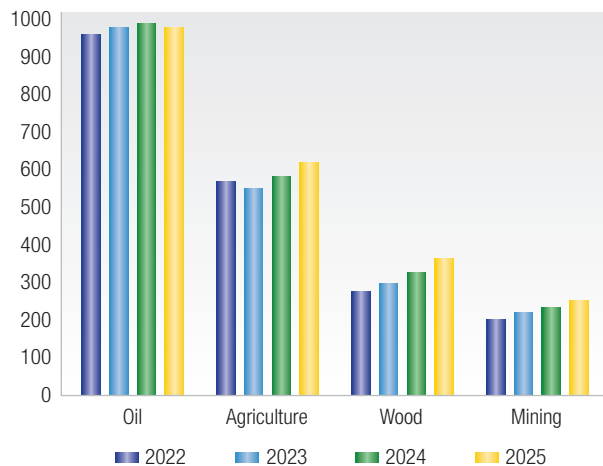
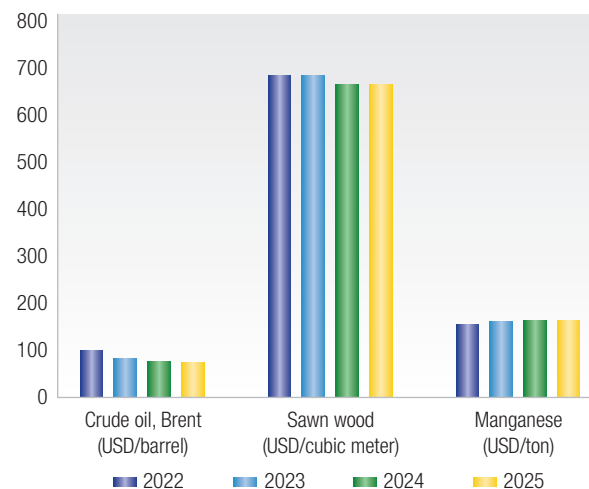


Figure 13b

World prices for Gabon's main commodities, 2022-2025



Sources: Gabonese authorities and World Bank staff calculations.

Note: Estimates for 2022; projections for 2023-2025. Data for the wood, mining and agriculture sectors include the respective extractive sectors (primary sector) and industrial transformation. Data for the oil sector includes oil extraction, refinery, and exploration and oil industry services.

2.6 percent of GDP and 0.7 percent of GDP respectively in 2022. While these policies are intended to protect the poorest, they fall short of achieving this goal. Fuel subsidies mostly benefit the wealthiest and urban segments of the population and alternative policy options do exist to protect more effectively the most vulnerable (a more detailed discussion is provided in the next chapter).

**On the external front, Gabon is highly exposed to price volatility and other potential shocks, given strong export concentration in terms of products and markets.** Over the coming years, growth prospects in China and India are expected to benefit Gabonese exports, especially oil, manganese, and wood. In 2023, high oil prices are expected to keep contributing to a trade surplus. However, gradually declining oil prices are expected to translate into reduced current account surpluses over the years. To reduce vulnerabilities and develop a more solid economic base, it would be important for Gabon to diversify not only its basket of exported goods but also its trading partners. Efforts to reduce the level of market concentration could prove invaluable to sustain the country's long-term economic objectives.

**Economic diversification efforts are underway, but Gabon's growth prospects, fiscal position, and trade basket all remain dependent on a few selected commodities, notably oil.** OPEC+ decisions on production quotas could have a significant impact on the country's macroeconomic performance. At the same time, rising uncertainty linked to the international context represents a risk to Gabon's outlook. A weaker growth in China or trade disruptions caused by a protracted war in Ukraine or other geopolitical tensions could negatively impact the demand for and prices of Gabonese products. While conflicts could still lead to high oil prices, they would cause growing disadvantages for Gabon, such as higher spending on fuel and food subsidies over time. Risks to fiscal sustainability remain, from the high costs of subsidies as well as the removal of the public sector hiring freeze and the foreseen increases in capital expenditures and in spending on goods and services. Spending is expected to rise in 2023, ahead of the upcoming elections and as investments are carried out in line with the PSGE. Delayed initiatives to increase tax collection and rationalize tax

expenditures, as well as a sudden drop in oil prices, could also compromise Gabon's fiscal health.

**Sustained economic growth and diversification would depend on strong institutional reforms, but these could be stalled by factors such as high oil prices and the upcoming elections.** A leader in net zero emission initiatives, Gabon – the first country in Africa to receive a payment for cutting carbon emissions – has plans to further mobilize climate financing. The country expects to sell credits from 90 million tons of carbon absorption, thanks to forest conservation. However, deeper reforms are yet to be achieved, to mobilize its economic potential and reduce reliance on oil. Ensuring good governance, particularly at the *Fonds Gabonais d'Investissements Stratégiques* (Gabonese Fund for Strategic Investments, FGIS), the entity tasked with managing carbon credits, will be key. However, high oil revenues and the distraction surrounding the elections could delay the implementation of reforms, with negative consequences for the economy. On debt policy, a debt strategy is in place to contain public debt, but the continued accumulation of arrears remains a major concern. Gabon's financing costs could increase in the absence of strong measures to improve cash flow management. Access to finance might be further compromised by tightening monetary policies.

**To achieve Gabon's diversification, competitiveness, and climate change adaptation goals, major improvements in infrastructure and human capital are needed.** Strengthening transport and energy infrastructure would be essential. Gabon's only railway, for example, was blocked for weeks due to landslides at end-December 2022, compromising shipments of wood and manganese as well as the supply of basic goods in affected areas. In addition, the Gabonese population, especially the young generations, need a more conducive business climate, expanded access to credit, and improved provision of healthcare, education, and vocational training, to be able to fully participate in and contribute to resilient growth.

# Chapter 2

## Special topic: Assessing the impact of fossil fuel subsidies in Gabon and options for policy reforms

This chapter provides policy options for gradually reforming fossil fuel subsidies in Gabon. While fuel subsidies imply significant fiscal and environmental costs, they benefit mainly the richest households. In addition, fuel subsidies divert fiscal resources from sectors, households, and firms that might need them more. International experience would suggest that the reform is most successful when fuel subsidies are phased out in a sequenced and gradual approach. This approach should be designed in consultation with key stakeholders and accompanied by compensation mechanisms that minimize potential short- and medium-term shocks on households and firms.

This chapter focuses on subsidies for kerosene, diesel, gasoline, and LPG (see Technical Annex 1 for more information on their use and see Technical Annex 2 for more information on the definition and quantification methodology of subsidies).

### 1. Introduction – recent development in fossil fuel subsidies

#### 1.1. Evolution of oil prices and related subsidies – Regional overview

**The recent surge in international oil prices has led to an increase in fuel subsidies across the world.**

After a price decline induced by slower economic activity and reduced demand due to the COVID-19 pandemic, energy commodity prices have been rising since late 2020 and reached new heights in 2022 amid the war in Ukraine (Figure 14). As governments around the world introduced measures to ease the impact of these high energy costs on households and businesses, energy consumption subsidies rose sharply in 2022, reaching nearly USD 700 billion for oil, natural gas and coal, the highest level ever recorded (Figure 15). These subsidies are mostly broad-based, instead of being targeted towards vulnerable groups, and come with significant fiscal costs.<sup>3</sup>

<sup>3</sup> Recently published estimate from IEA based on data from 51 countries, covering the OECD, G20 and 33 other major energy consuming and producing economies.



**Countries in West and Central Africa, including in the CEMAC region, have seen a similar development.** The fiscal cost of energy subsidies in AFW more than doubled compared to their pre-COVID levels (Figure 16). In contrast to rising energy subsidies, public spending on social sectors has stagnated or even decreased (Figure 17). The fiscal cost of fossil fuel sub-

sidies in CEMAC countries reached CFAF 1,243 billion in 2022, equivalent to about 1.8 percent of the region's GDP, above the average of West African countries at 1.5 percent of GDP. While some CEMAC countries have increased retail fuel prices in early 2023, subsidies (except for CAR) are still substantial.<sup>4</sup>

Figure 14

Crude oil price, Brent (USD/bbl)



Figure 15

Fossil fuel consumption subsidies worldwide (billion USD)

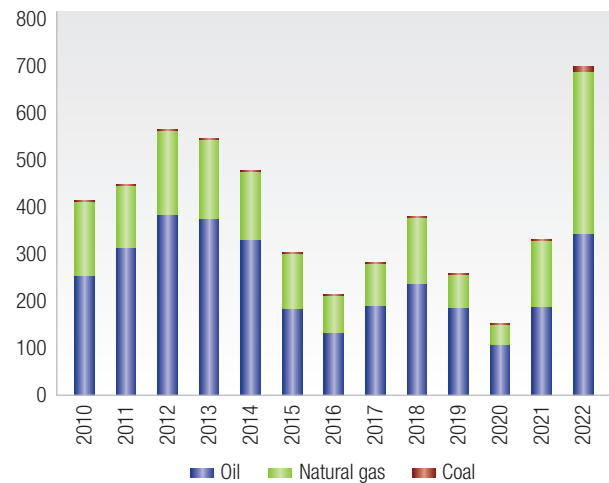


Figure 16

Fiscal cost of fuel subsidies in West and Central African countries (percent of GDP)

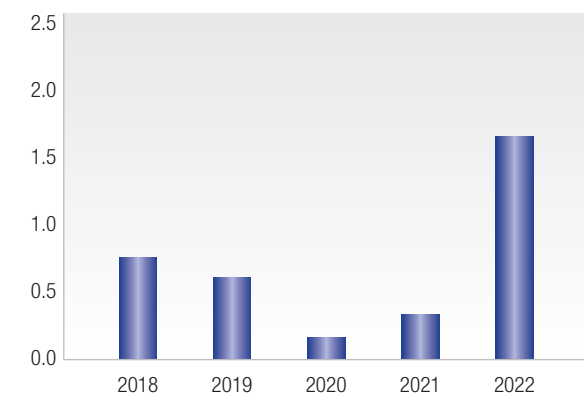
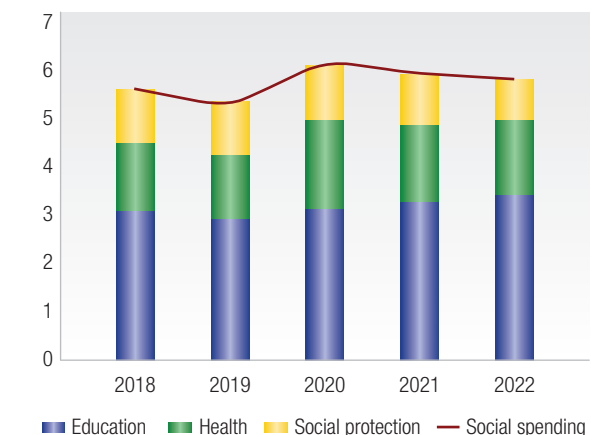


Figure 17

Social Spending in West and Central African countries (percent of GDP)



Sources: National authorities and World Bank staff calculations.

Note: Due to data availability, in these graphs "West and Central African countries" refers to the following countries: Burkina Faso, Cabo Verde, Cameroon, Central African Republic, Republic of Congo, Côte d'Ivoire, Equatorial Guinea, Gabon, Ghana, Mauritania, Nigeria, Senegal, The Gambia, and Togo.

<sup>4</sup> In early 2023, Cameroon increased retail fuel prices (diesel +25 percent, gasoline +15 percent, kerosene to industries +60 percent), as well as CAR (diesel +70 percent, gasoline +50 percent) and Congo (diesel +5 percent, gasoline +5 percent).

**CEMAC economies are exposed to oil price volatility and have not managed to translate their natural wealth into sustainable development.** Oil

accounted in 2022 for more than 25 percent of GDP in CEMAC economies and covered roughly 80 percent of the region’s exports of goods. Tax and non-tax revenues related to oil contributed to about 55 percent of total revenues. Many crude oil exporters rely to a great extent on imports of refined products because of constraints in refining capacity. Given the size of the oil sector and its importance in commanding public resources, these countries are highly exposed to the volatility in international oil prices. Their fiscal space is less predictable and they have been facing challenges in the use of oil revenues to invest in physical and human capital to lay the foundations of more sustainable and inclusive growth.

**Both oil importers and exporters have increased their fuel subsidies, although oil exporters have larger buffers.**

Fuel subsidies have been rising in both net oil exporting and net oil importing countries (Figure 18). A share of the oil windfall in oil exporting countries has been used to finance subsidies and protect their population from the higher international prices for oil (Figure 19). These countries have nevertheless larger external and fiscal buffers than oil importing countries, with on average narrowing current account and fiscal deficits (Figures 20 and 21). However, subsidizing fuel, even for oil exporters, is a story of an expensive missed

opportunity as these resources could have been used for other purposes and perhaps to a greater benefit.

**1.2. The growing fiscal cost of fossil fuel subsidies in Gabon**

**Fossil fuel subsidies represent a growing fiscal burden in Gabon, even if the country is a net oil exporter.**

High oil prices have been benefiting Gabon, representing a net gain for its fiscal balance. However, the potential gains for the country are being increasingly reduced by the rising cost of fuel subsidies. Between 2021 and 2022, public spending on fuel subsidies increased from 0.38 percent of GDP to an estimated 0.73 percent of GDP (Figure 22). The bulk of fuel subsidies in Gabon is provided in the form of budgetary transfers made to SOGARA, the national refinery, to compensate it for local fuel sales below international market prices; in addition, a VAT exemption also applies for LPG sales. Subsidies are, since June 2022, restricted to household consumers. The most subsidized petroleum product in 2022 was diesel (45.4 percent of the subsidies provided, Figure 23), a fuel mainly consumed by the richest households (Figure 25). Kerosene ranks second, representing 33.8 percent of the total subsidies provided. Gasoline, used in personal vehicles, ranks third, accounting for 20.8 percent of total subsidies provided. LPG represents only 0.1 percent of subsidies provided in 2022.

Figure 18

**Fuel subsidies, by net oil importers and exporters (percent of GDP)**

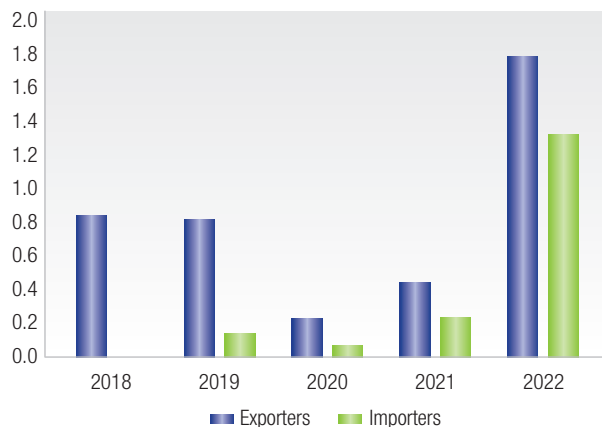
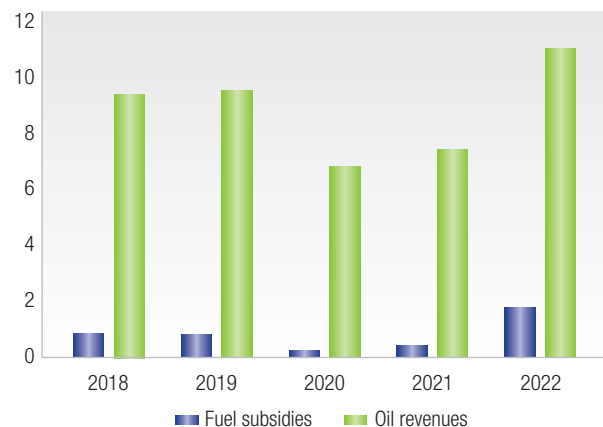


Figure 19

**Oil revenues and fuel subsidies for net exporters (percent of GDP)**



Sources: National authorities and World Bank Staff calculations.

Figure 20

Fiscal balance by net oil importers and exporters (percent of GDP)

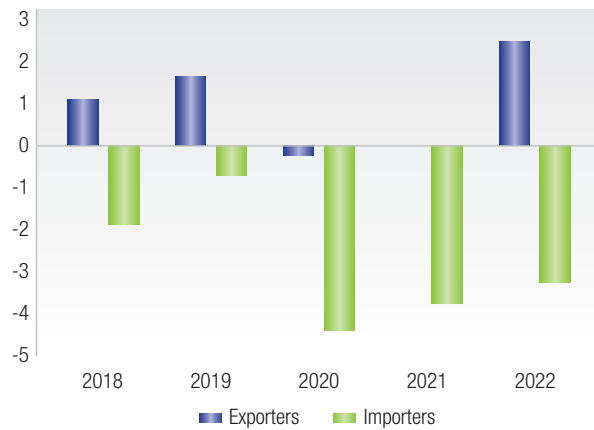
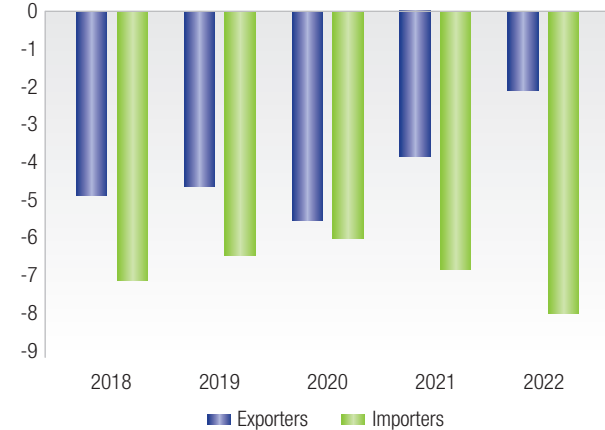


Figure 21

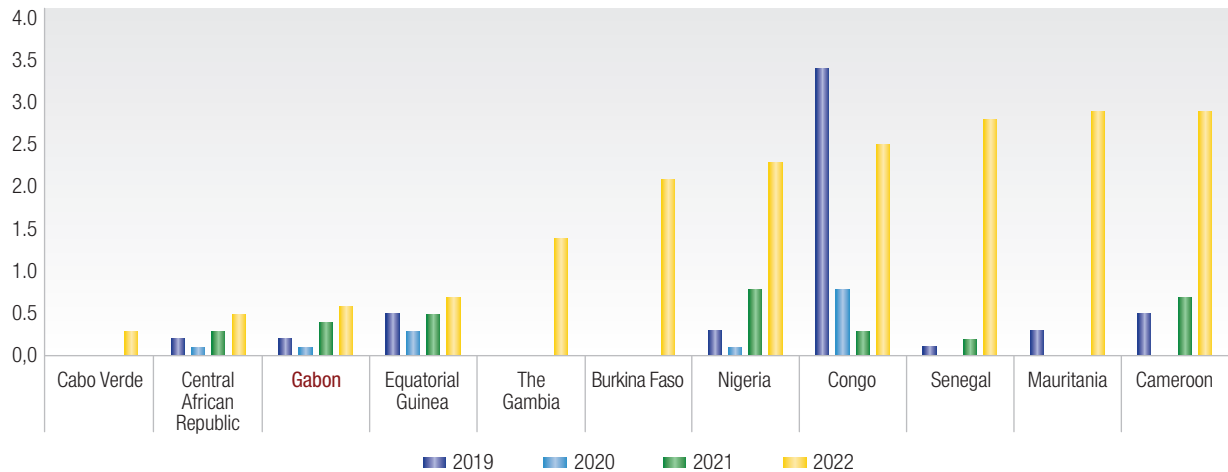
Current account balance, by net oil importers and exporters (percent of GDP)



Sources: National authorities and World Bank Staff calculations.

Figure 22

Fiscal cost of fuel subsidies in CEMAC and selected Sub-Saharan African countries (percent of GDP)



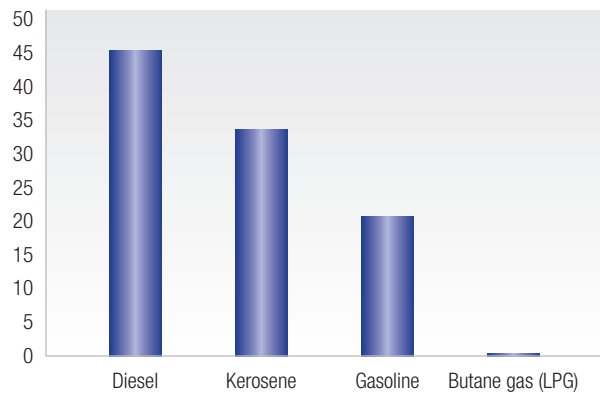
Sources: National authorities and World Bank staff estimates.

**The Government of Gabon has made several attempts at reform, but subsidies remain a source of risk to the budget.** In 2015, the Government fully liberalized fuel prices, with the exception of kerosene and LPG. However, the scale of the fuel price increases and the lack of clear communication around the reform made it challenging for the Government to maintain the policy, leading to an adjustment to the reform in 2016. In particular, faced with growing discontent among transport unions, in early 2016 the authorities introduced an automatic fuel price adjustment mechanism as an

intermediate solution. The first few months following the introduction of the automatic price adjustment mechanism saw a rise in general price levels, with inflation rising from 2.1 percent in December 2016 to 3.6 percent in August 2017. Concerned by that, the authorities then temporarily froze the automatic fuel price adjustment. Prices remained frozen from March to September 2017, at a fiscal cost of 25 billion CFAF in 2017. The automatic fuel price adjustment mechanism has proven challenging to sustain since its reintroduction in September 2017. In the absence of an effective and well-targeted social

Figure 23

**Distribution of fuel subsidies by product, 2022  
(in percentage of total subsidies provided)**



Source: World Bank and IMF calculations based on data from the Gabonese authorities.

protection program capable of supporting the most vulnerable in a context of rising prices, the Government opted to suspend its application in 2021, amid rising international oil prices following the COVID-19 pandemic. A clear and clearly communicated timetable for revising the price adjustment formula based on studies conducted when the reform was introduced would have given the Government greater flexibility. More recently, in June 2022, in an effort to contain this rising fiscal cost, the Government decided to liberalize gradually fuel prices for industrial consumers, while maintaining prices for households unchanged. Moreover, as part of a broader effort to contain rising living costs, a VAT exemption for the sales of LPG was also maintained in the 2022 budget law.

**In Gabon, fuel subsidies represent one fourth of total public expenditure allocated to key social areas such as health or education.** In 2022, the Government of Gabon spent an estimated 0.73 percent of GDP with fuel subsidies, while the total public social expenditure foreseen in the budget law represented 2.8 percent of GDP (Figure 24). Estimated to have reached CFAF 100.6 billion by the end of 2022, fuel subsidies represented two thirds of total public spending allocated to health, and more than half of total spending on education (respectively, CFAF 149.4 billion and CFAF

5 World Bank, ASPIRE database.

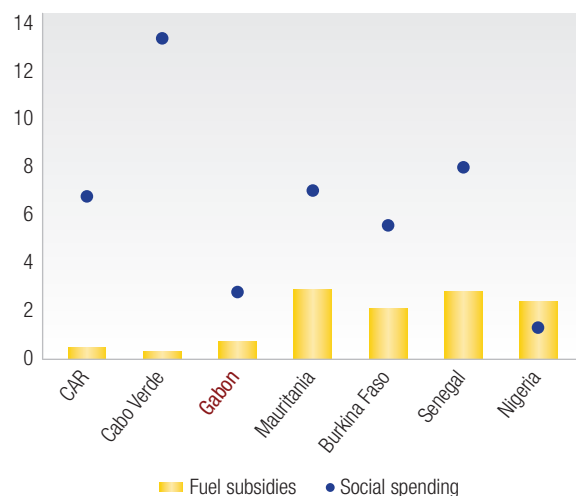
187.5 billion were allocated to these sectors in the 2022 revised budget law). Furthermore, Gabon spends the least on non-contributive social assistance among other countries at similar income levels: 0.5 percent of GDP in 2021, four times less than the Upper-Middle Income Countries' (UMIC) average,<sup>5</sup> primarily on scholarships, healthcare subsidies and safety nets, and family allowances.

**Reducing spending on fuel subsidies would free fiscal resources for urgently-needed investments in physical and human capital.**

Gabon has a weaker performance in terms of human development and physical infrastructure compared to other upper-middle income countries. In the 2020 Human Capital index, which measures the contribution of health and education to future productivity, Gabon scored 0.46 out of 1, compared to an UMIC average of 0.56. 85 percent of the adult Gabonese population is literate, below the average of 96 percent of adults in UMIC. Life expectancy at birth in Gabon is also below the UMIC average, at 67 years against 76 years. In terms of infrastructure, Gabon

Figure 24

**Fuel subsidies vs social spending in 2022, in Gabon and selected Sub-Saharan African countries (percent of GDP)**



Sources: National authorities and World Bank staff calculations. Note: Fuel subsidies exclude subsidies to gas and electricity. Social spending includes government expenditure on health, education, and social protection. CAR: Central African Republic.

ranked 150th out of 163 countries in the World Bank 2018 Logistics Performance Index, which measures challenges to trade logistics.

**Fuel subsidies also prevent the country from building needed buffers.** Past experience has shown that Gabon and other CEMAC countries have adopted procyclical budgetary policies – as public expenditure increases in times of high oil prices and decreases when prices drop, exacerbating economic crises instead of mitigating their impacts.<sup>6</sup> In this context, fuel subsidies add to the country’s development and public financial management challenges, as they absorb the current revenue windfall from high oil prices, preventing the Government from allocating resources to investments in critical areas for development, including education, health, social protection, and infrastructure, or even to build up a fiscal buffer to support a countercyclical budgetary approach in preparation of future lower oil prices.

**In addition, fuel subsidies introduce environmental and market distortions.** By preventing domestic retail prices from being aligned with international prices, fuel subsidies distort the actual cost of energy. This distorted pricing does not encourage an efficient use of

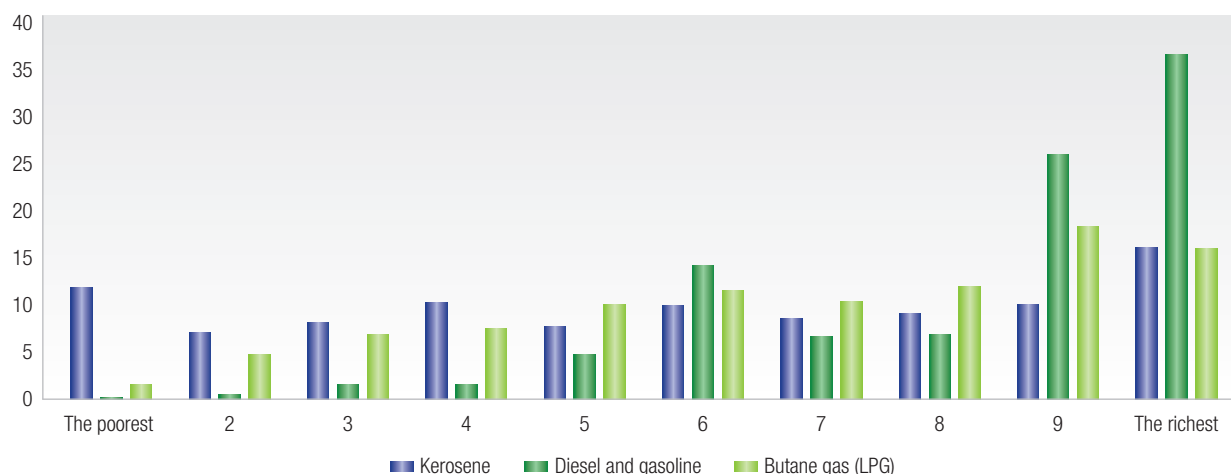
energy, with adverse effects on the environment. Such distortions might prevent countries from reducing reliance on the subsidized fossil fuels and from developing renewable sources of energy or adopting low emitting development solutions, locking them on a higher emission development pathway in the future. In addition, such market distortions may lead to unlawful market practices, such as the creation of an informal parallel market or cross-border smuggling. Such practices could generate domestic energy supply shortages, further deteriorating the domestic market dynamics and local economy.

### 1.3. Distributional analysis of fossil fuel subsidies in Gabon

**Fuel subsidies are mostly captured by male-headed rich households living in urban areas and consuming gasoline and diesel, rather than kerosene or butane gas (LPG).** Subsidies on petroleum products (excluding kerosene) benefit mainly the richest segment of the population in Gabon. 96 percent of gasoline and diesel are consumed by the richest 50 percent of the population, and the two richest deciles account for 63 percent of this consumption (Figure 25). In other

Figure 25

Distribution of fuel consumption by income group (in percentage, by decile)



Sources: National authorities and World Bank staff calculations.

Note: Estimates are based on data from the 2017 Gabon Poverty Assessment (*Enquête Gabonaise pour l’Évaluation et le Suivi de la Pauvreté*).

<sup>6</sup> World Bank. 2022. *CEMAC Quarterly Economic Barometer: Vol. 2*. February. Washington, D.C.: World Bank; World Bank. 2022. *Gabon Country Economic Memorandum: Toward More Inclusive and Greener Growth*. Washington, D.C.: World Bank.

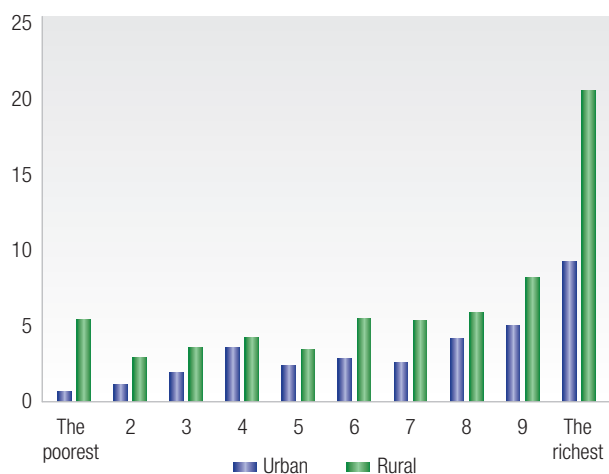
terms, the majority of public spending on subsidies on gasoline and diesel are actually captured by the wealthiest. Against the commonly-held view that fuel subsidies have primarily a social goal of protecting the poorest, in fact the most vulnerable people in the country consume a substantially smaller amount of these two types of fuel. Furthermore, low-income households also spend a smaller share of their budget on fuel, compared to wealthier ones, further highlighting the inefficiency of this non-targeted support in protecting the poorest. Only 0.05 percent of the monthly budget of the poorest ten percent of the population goes to diesel and gasoline, whereas the top decile spend about 36 times more as a share of their budget on these fuels (Figure 28). The same goes for LPG: the 20 percent richest households spend two times more of their budget on LPG, compared to the bottom 20 percent. Kerosene is an exception, as its consumption tends to be more equally distributed throughout socioeconomic groups. Geographically, kerosene (used mainly for lighting) is used mostly in rural areas, with 66 percent of kerosene consumed by rural households (Figure 26). Yet, the richest decile still consumes almost 4 times more kero-

sene than the poorest decile, hence capturing most of the subsidies. Looking at the distribution of subsidies in terms of gender, male-headed households consume the most fuel (Figure 27). In other terms, fuel subsidies provide a limited support for the poorest Gabonese.

**An increase in fuel prices could have direct and indirect effects, implying a limited increase of the general price level.<sup>7</sup>** Directly, households are affected through their own consumption of fuels such as gasoline or diesel. However, they are also indirectly affected, since petroleum products are used as intermediary products in many sectors. A fuel price hike therefore feeds into the price of the final good produced by other sectors. A preliminary analysis would suggest that, based on the price structure observed at end-December 2022, a complete removal of subsidies for all petroleum products except kerosene would imply an increase for gasoline and diesel prices of about 88 percent and 96 percent, respectively, and lead to a one-time adjustment of about 3.4 percent in the overall price level (Figure 29). Because subsidies for kerosene do not account for the bulk of the fiscal costs, excluding them

**Figure 26**

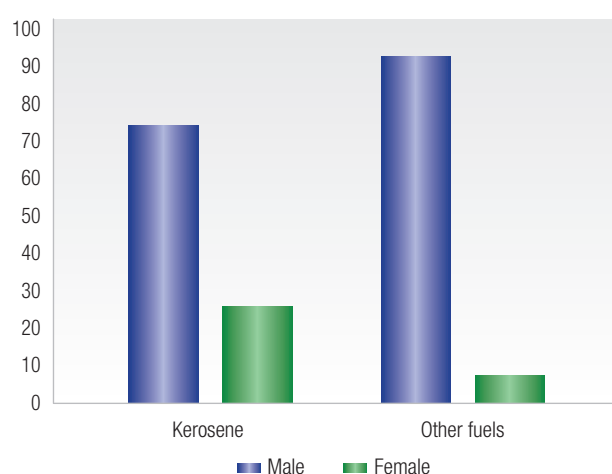
**Distribution of kerosene consumption, by income group and region (in percentage, by decile)**



Sources: National authorities and World Bank staff calculations.  
 Note: Estimates are based on data from the 2017 Gabon Poverty Assessment (*Enquête Gabonaise pour l'Evaluation et le Suivi de la Pauvreté*).

**Figure 27**

**Distribution of fuel consumption, by gender (in percentage)**



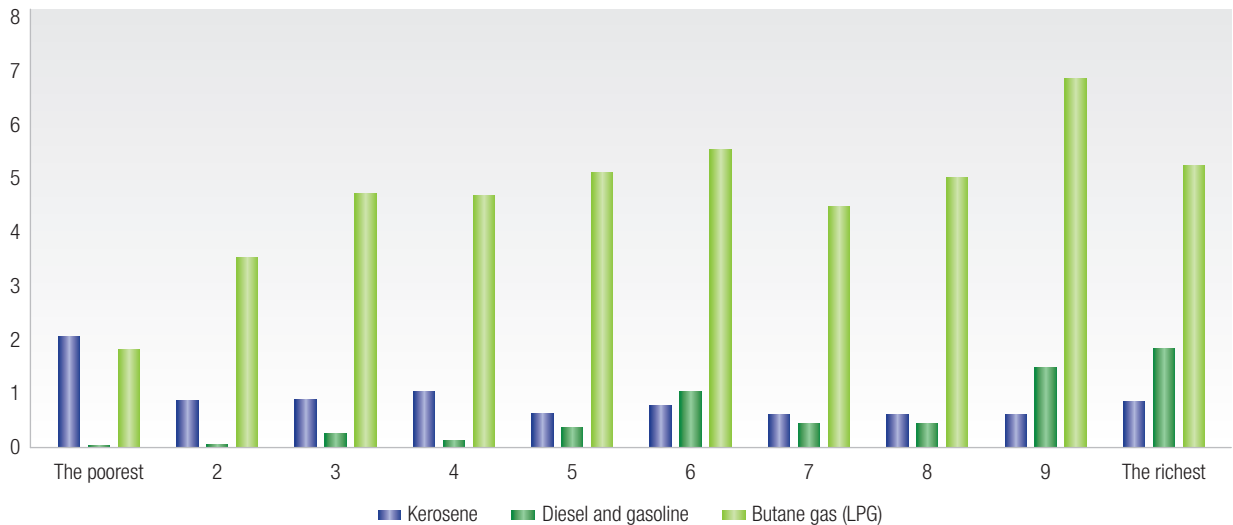
Sources: National authorities and World Bank staff calculations.  
 Note: "Other Fuels" includes diesel, gasoline and butane gas (LPG).

<sup>7</sup> The hypothesis considered is of a complete removal of fuel subsidies (for gasoline and diesel). The analysis is based on a CGE (computable general equilibrium) model.



Figure 28

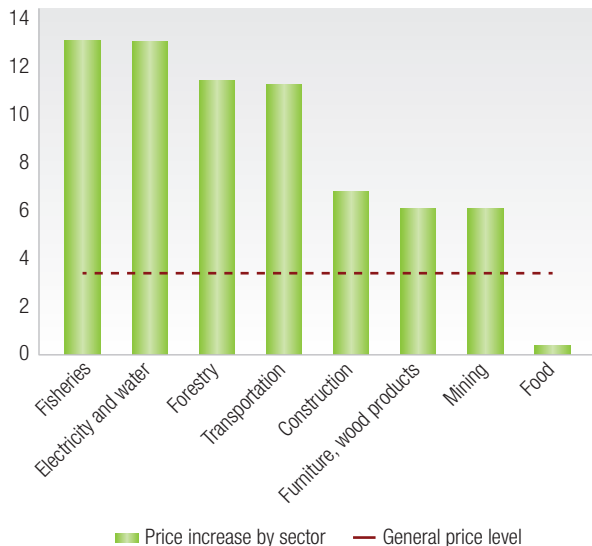
Proportion of fuel consumption as a percentage of the household budget (by income group and by fuel)



Sources: National authorities and World Bank staff calculations.

Figure 29

Price increase in case of withdrawal of fuel subsidies in Gabon (in selected sectors, in percent)



Source: World Bank calculations based on data from the national authorities.

Note: This graph indicates the estimated impact of the complete removal of fuel subsidies on selected sectors, based on the share and intensity of fuel consumption for each sector.

from a price adjustment would not erode much the potential fiscal savings of this action.

**The removal of fuel subsidies would nevertheless impact some important sectors.** The wood industry would be strongly impacted. The sector plays a vital role in the Gabonese economy, as the wood sector is the country's largest private sector employer and the source of its second most exported good, after oil. Prices for construction activities and the fishing industry, two sectors highly promoted by the Government, would also be substantially impacted. As far as locally produced food products are concerned (except for fish products), their prices would not be affected very much if subsidies were to be removed. However, food security is a key concern given Gabon's high dependency on imported food.

**The removal of fuel subsidies would nevertheless add to the inflationary pressures in the country and, if not accompanied by mitigation measures, could push some households into poverty.** While representing a very small share of their income (as measured by consumption), the elimination of fuel subsidies erodes nevertheless the purchasing power of households. The removal of fuel subsidies could also exacerbate the severity of living conditions for those

who are already poor. International experience shows that even small losses risk triggering negative coping mechanisms, such as pulling children out from school or selling productive assets, that erode human capital and contribute to the intergenerational transmission of poverty. Therefore, a fuel subsidy reform requires a strong mitigation package aimed at providing targeted support to the most vulnerable segments of the population.

**The Government's use of the fiscal resources freed up by the removal of subsidies is critical for the ultimate outcome of poverty, employment, and growth.** Governments can reduce the fiscal burden of energy price subsidies and allocate the new fiscal space to more sustainable and equitable uses. The various options include paying down debt, investing in public infrastructure and in people, protecting specific population groups, and targeting assistance to certain industries. Simulations using economy-wide models tend to show that building or protecting human and physical capital lead usually to higher employment and growth rates.<sup>8</sup> In the case of China, for instance, these simulations would suggest that removing all energy subsidies (estimated to be 1.4 percent of GDP in 2007) without redistribution of the savings would have been detrimental to growth and employment. The more the savings from subsidy removals are reallocated to certain sectors (agriculture, services, and light industry), the greater the positive effects on these macroeconomic variables.<sup>9</sup> Investing in a country's people, in their health, their skills, and their resilience to shocks, is critical to fostering more inclusive growth, especially for CEMAC countries where the average child born today will be only 37 percent as productive as he or she could be.

## 2. General principles from international experience

**International experience shows that removing fuel subsidies has been difficult.** In many countries with limited social safety nets, a generalized subsidy is seen as a part of the social contract. This could be particularly true for oil producing countries. As further developed below, transparency and trust between the authorities and the population are crucial to convincing the population about a credible mitigation package. A couple of general principles could be drawn from the experience of countries that have carried out fuel price adjustments. These principles could frame a discussion for Gabon.

### 2.1. Calibrating price adjustments by petroleum products

**Depending on the consumer profile of each fuel (e.g., income group, area, gender, usage, etc.), it can be envisaged to prioritize the reform of fuels that benefit the richest segments of the population and represent the highest fiscal cost.** For instance, some countries have decided to exclude (at least temporarily) from the subsidy reform socioeconomically strategic fuel(s) which (i) are used by the most vulnerable households and/or (ii) have a universal use (both from a geographic and a socioeconomic perspective) and/or (iii) are used in a systemic segment of the economy (agriculture, industry).

**For example, kerosene tends to be consumed more by poorer households and in rural areas.** In many developing countries, petrol and diesel are consumed mainly by wealthier households with private cars and/or power generators, as well as by the industrial sector. Eliminating (or substantially reducing) subsidies for the most regressive fuels could limit the fiscal cost, while mitigating the impact on low-income households.

<sup>8</sup> Burns, Andrew; Djiofack Zebaze, Calvin; and Prihardini, Dinar. 2018. *Energy Subsidy Reform Assessment Framework: Modeling Macroeconomic Impacts and Global Externalities*. Washington, D.C.: World Bank.

<sup>9</sup> Lin, B., and Z. Jiang. 2011. "Estimates of Energy Subsidies in China and Impact of Energy Subsidies Reform." *Energy Economics* Vol 33, p.273–83.

### International country case – Indonesia

- Since 1967, Indonesia had been subsidizing retail prices of fuel, a policy facilitated by its status of net oil exporter – lost in 2003 as the country needed to increase its oil imports to meet domestic demand.
- The Indonesian Government subsidized mainly two categories of fuel: cooking gas in the form of LPG, and two other petroleum products used for transportation – gasoline and diesel (the latter being used for public transportation, fisheries, and small and medium-sized enterprises).<sup>10</sup>
- This fuel subsidy policy was favoring mainly the richest households, as over 50 percent of subsidized fuel was bought by the richest 20 percent of the population in 2014.<sup>11</sup>
- In addition, the fiscal and social opportunity cost of energy subsidies (LPG, petroleum products and electricity) had become particularly heavy, accounting for 20 percent of Indonesia’s central government budget from 2008 to 2014, surpassing by far government expenditure on health and infrastructure over the same period.<sup>12</sup>
- In November 2014, President Joko Widodo launched a reform of gasoline and diesel subsidies (prices for gasoline were increased by 31 percent and 36 percent for diesel in 2014, prices of kerosene were kept unchanged).<sup>13</sup> The price gap was further narrowed by a decrease in international oil prices. As a result of the reform, the Revised State Budget 2015 saved USD 15.6 billion (IDR 211 trillion) on fossil fuel subsidies, equivalent to 10.6 percent of government expenditure.<sup>14</sup>
- As of January 2015, the Government fully removed the subsidy on gasoline, but introduced a fixed subsidy on diesel, because it was used by public transporters (mostly used by the most modest segments of the population) and by SMEs. Domestic diesel prices were allowed to fluctuate, while benefiting from a fixed subsidy of 1,000 rupiah per liter.
- This temporary measure in favor of diesel should have been part of a longer-term agenda aimed at phasing out subsidies more broadly, but is still in place.

## 2.2. Adopting a mechanism to move gradually towards market-based pricing

**While eliminating subsidies and allowing national retail prices to reflect international prices, many countries have opted to keep some smoothening mechanism in place to protect their population and their economy from wide swings in fuel prices.** While appealing, stabilization funds carry high fiscal

risks and very often have faced financial difficulties requiring support from the budget, especially in times of steadily rising oil prices.

Adopting a mechanism to move gradually toward market-based pricing is an option to mitigate the impact of commodity price volatility while managing fiscal risks. Limiting a full pass-through of price changes to domestic consumers entails significant volatility in tax revenues and potentially high fiscal costs, especially during pe-

10 Tumiwa, Fabby; Tara Laan; Kerry Lang; and Damon Vis-Dunbar. 2011. *A citizen's guide to energy subsidies in Indonesia*. International Institute for Sustainable Development, Global Subsidies Initiative and Institute for Essential Services Reform.

11 Pradiptyo, Rimawan; Akbar Susanto; Abraham Wiratomo; Alvin Adisasmita; and Christopher Beaton. 2016. *Financing development with fossil fuel subsidies – The reallocation of Indonesia's gasoline and diesel subsidies in 2015*. International Institute for Sustainable Development and Global Subsidies Initiative. May.

12 Government of Indonesia. 2019. *Indonesia's effort to phase out and rationalize its fossil fuel subsidies: A self-report on the G20 peer review of inefficient fossil fuel subsidies that encourage wasteful consumption in Indonesia*. G20 2019 Japan. Ministry of Finance and Ministry of Energy and Mineral Resources of the Republic of Indonesia.

13 Nguyen, Andy. 2015. President Jokowi's Economic and Energy Reforms: A Year in Review. The National Bureau of Asian Research. October 23, 2015. Available at: <https://www.nbr.org/publication/president-jokowis-economic-and-energy-reforms-a-year-in-review/>

14 Pradiptyo, Rimawan; Akbar Susanto; Abraham Wiratomo; Alvin Adisasmita; and Christopher Beaton. 2016. *Financing development with fossil fuel subsidies – The reallocation of Indonesia's gasoline and diesel subsidies in 2015* – IISD, Global Subsidies Initiative, P2EB - May 2016.

riods of sustained increases in international prices. In this context, adopting an explicit fuel pricing formula that smooths price variations but allows for the pass-through of international prices to domestic consumers, both increases and decreases, may offer a balance between excessive price volatility and fiscal risks. The adoption of such automatic pricing mechanisms should be viewed as the first step towards a fully liberalized and competitive fuel market.

**The first pillar of such an option is to design a fuel price adjustment formula. Several price smoothing mechanisms are possible.**<sup>15</sup> One of the most common price smoothing mechanisms is the establishment of a price band mechanism. This mechanism sets a cap on the magnitude of possible retail price changes (either defined as a percentage of current retail prices or as an absolute amount). At a pre-defined interval (for example, monthly), the retail price will be determined based on the average import cost of the previous month and will be allowed to increase within the limits of this cap, either in a one-shot or in successive increases allowing

prices to catch up gradually to international price levels. Another common price smoothing mechanism is the establishment of a moving average mechanism. This mechanism defines domestic retail price adjustments based on changes in the average of past import costs. The longer the average period of import costs used (for example, the past three or five months of imports), the smoother the price changes, but the higher the fiscal risk.

**The second pillar of this measure is the adoption of a calendar to review the price adjustment formula.** For instance, the margins defined in a formula can be updated based on the findings of studies to be commissioned regularly.

**The third pillar of this measure is the creation of a technical autonomous body in charge of the implementation and supervision of the automatic pricing mechanism.** The intention is that price changes do not result from a political decision but rather reflect international market price fluctuations.

## Box 2

### International country case – Morocco<sup>16</sup>

- In the early 2010's, a multi-year subsidy reform strategy was launched to reform retail fuel prices in Morocco (excluding LPG, deemed socioeconomically strategic).
- The strategy comprised three stages: a preparation phase characterized by incremental increases in retail prices to gradually reduce subsidies; a partial indexation phase whereby prices were defined according to an automatic pricing mechanism with smoothing rules aimed at gradually eliminating subsidies; and a final phase of price liberalization.<sup>17</sup>
- In 2013, following a preparation phase which introduced differentiated ceilings on unit subsidies (higher ceilings for diesel), the government introduced an automatic pricing mechanism for diesel and gasoline. This mechanism was based on a moving average of international prices in the previous two months. The adjustment frequency was monthly and was later adjusted to become more frequent (bi-monthly) until subsidies were fully eliminated (in January 2014 for gasoline and fuel oil and December 2014 for automotive diesel).

15 IMF. 2012. *Automatic Fuel Pricing Mechanisms with Price Smoothing: Design, Implementation and Fiscal Implications*. IMF Fiscal Affairs Department, December.

16 IMF. 2020. *The time is right! Reforming Fuel Product Pricing Under Low Oil Prices*. IMF Fiscal Affairs Department, July.

17 *A phased approach to energy subsidy reform: The Morocco experience*. World Bank Energy Subsidy Reform Online Community (ESROC) Practitioner Exchange Series. Energy Sector Management Assistance Program (ESMAP). 2017. Washington, D.C.: World Bank.

## 2.3. Staggering the reform

**Many countries have not eliminated fuel subsidies in one go but sequenced and gradually implemented the reform.** This allows households and firms time to adjust, which, accompanied by mitigation measures, supported both groups in the transition process. A review of cases of fuel subsidy reforms shows that subsidy reforms are less subject to rejection and/or reversal when prices are raised in an incremental manner, over periods ranging from a few months to a few years. This approach slows down the passthrough of the impact, allowing the population to adjust gradually, hence reducing risks to social stability, especially when combined with strengthening social safety nets, including temporary, targeted transfers, and supported by consistent communications to raise awareness of the benefits of reform. Transparency, including clear communication and managing expectations, is critical throughout the reform process. A staggered reform opens the possibility of announcing the timing of price increases to prepare citizens, allowing them time to

change their behavior and adopt more energy efficient alternatives.

## 2.4. Stakeholder consultations

**Countries that have successfully reformed energy subsidies have undertaken extensive consultations and communication campaigns to address the concerns of various population groups.** Consultations have helped the Government identify differentiated measures according to each group's vulnerability. Communication has emphasized the urgency of the reform, as well as the Government's commitment to reallocating resources made available by the reform to programs that benefit most of the population. These sessions are also the occasion to unbundle misconceptions about fuel prices, subsidies, and compensation mechanisms. They can be the opportunity to discuss the magnitude, timing, and relevant mitigation measures of the subsidy reform. Organizing consultations with key stakeholders gives them a platform to express their views, reducing the risk for an abrupt rejection of the reform during its implementation.

### Box 3

#### International country case – The Philippines<sup>18</sup>

- The Philippines is an example of a successful sequenced reform, having phased out fossil fuel subsidies in the late 1990s following several policy milestones.
- Before fully liberalizing fuel prices, the Philippines went through several stages ranging from (i) 1984: implementing an oil stabilization fund (intended to smooth international price volatility); (ii) 1996-1997: transitional subsidies assisted by the stabilization fund; (iii) 1996-1997: implementing an automatic pricing mechanism adjusting monthly prices, with a special attention given to the three most socially sensitive products (LPG, kerosene and regular gasoline); and (iv) 1998: market-based fuel pricing.
- The impacts of these fuel subsidy reforms were mitigated using targeted cash transfers, as well as transitional targeted regulated subsidies aimed at low-income households, specific sectors, and socially sensitive fuels.
- In parallel to the fuel subsidy reform, an electricity sector reform also took place as part of a comprehensive energy sector policy strategy. This reform was designed to deregulate the sector while protecting the most vulnerable customers (a lifeline rate for low-income users cross-subsidized by high-income groups, targeted subsidy providing discounted electricity prices to senior citizens, a one-off cash transfer for marginalized electricity consumers to cushion the impact of rising electricity and fuel prices).

<sup>18</sup> Mendoza, Maria Nimfa. 2014, *Lessons Learned: Fossil Fuel Subsidies and Energy Sector Reform in the Philippines*. Global Subsidies Initiative Report. International Institute for Sustainable Development and Global Subsidies Initiatives. March.

**International country case – Ukraine<sup>19</sup>**

- In 2015, Ukraine undertook a subsidy reform for gas, electricity and district heating.
- In addition to providing strong mitigation measures such as strong social protection measures, the reform significantly relied on dialogue with key stakeholders (especially end-consumers) to (i) explain the objective of the reform (common good), as it was largely misunderstood; (ii) guide the sequencing of reform policy at a pace deemed acceptable; (iii) revitalize access to compensatory social safety net mechanisms, little known or understood.
- The communication strategy was successful in (i) mapping key stakeholders as 2,000 citizens were polled, in 20 strategic cities; (ii) informing these stakeholders through the organization of 40 dialogue groups as well as reaching-out campaigns (advertisements were broadcasted 400 times a week through 19 credible and popular TV channels); (iii) co-designing the reform with citizens.

### 3. Accompanying measures

**Country experiences illustrate the variety of possible accompanying measures to make adjustments in fuel prices socially acceptable and with minimized impacts to the population.** They show that there is not a standard single set of actions, but that these measures need to be discussed, identified, and designed to reflect the concerns and the characteristics of each country.

#### 3.1. Reinforcing social safety nets

**International experience shows that social safety nets can play an important role in mitigating the adverse effects of the subsidy reform on the poor.**<sup>20</sup> Most countries spend 1–2 percent of GDP on safety net programs (excluding subsidies). Safety nets are effective and efficient at supporting the poor and vulnerable by: (i) redistributing income, with an immediate impact on both poverty and inequality, (ii) enabling households to make better investments in their future – both in the human capital of their children and in their livelihoods, and (iii) helping households manage risk and cope with shocks. To mitigate the immediate impact of fuel subsidy reform, measures can be designed to pro-

vide a temporary, targeted financial support to protect the purchasing power of affected groups, especially the poorest households. The success of these measures greatly depends on several factors, such as the modality of their design (scope, conditionality, roll-out) as well as their adequacy with the local capabilities (such as fiscal space, existence of a complete and up-to-date social registry, administrative management). Such support can be provided through a social safety net system (Box 5).

**The 2005 cash transfer program in Indonesia shows that logistics matter.** The Government of Indonesia launched a cash transfer program in October 2005 to support the poor and vulnerable in adapting to the effects of higher gasoline, diesel and kerosene prices. First, the timing of the program was key in reducing protests against the reform, as the program was designed and deployed in less than five months, providing timely support to affected groups. Second, using an existing delivery system (the national postal system), the cash transfer program was able to reach those most in need with limited delay. Last, the amount provided (Rp 100,000, equivalent to 20 percent of the 2005 national minimum wage) was significant enough to improve outcomes.<sup>21</sup> The transfers were mainly used for purchasing

19 Worley, Heather; Sara Bryan Pasquier; and Ezgi Canpolat. 2018. *Designing Communication Campaigns for Energy Subsidy Reform*. Energy Subsidy Reform Assessment Framework (ESRAF) Good Practice Note 10. Energy Sector Management Assistance Program (ESMAP) Paper. Washington, D.C.: World Bank.

20 Social safety nets are non-contributory transfer programs targeted to the poor, including cash transfers, income support through public works programs, or in-kind transfers such as school feeding.

21 International Labour Organization. 2015. *Indonesia – Trends in wages and productivity January 2015*.



### Reinforcing social safety nets as a mitigation measure<sup>22</sup>

Social safety nets can play a key role in mitigating the negative effects of a fuel price adjustment. Depending on the state of development of the social safety programs, various options are possible:

- 1. Increase the benefit levels of existing social safety net programs.** This is the preferred, most direct and most effective option if – and only if – the programs already cover the majority of the poor and have the capacity to absorb a reasonable number of new eligible households. This option is particularly relevant in countries where there are existing programs with high coverage, but low benefit levels (e.g. Azerbaijan, Egypt, the Philippines, Russia).
- 2. Introduce a new dedicated program directly linked to the subsidy reform.** This program should be able to expand very quickly to cover the poor and vulnerable. This is often the most difficult option, but sometimes it is the only viable strategy. Examples of the use of this option include subsidy reform in Indonesia in 2005-2008, subsidy reform in India in 2013, or, more recently, temporary compensation in Jordan as part of the 2012 and 2018 reforms. This option requires significant administrative, implementation and coordination capacity, which may not be readily available.
- 3. Reform and extend the coverage of an existing program to cover a significant share of the poor and vulnerable.** International experience shows that this expansion and increase in benefit adequacy can happen relatively quickly: for example, programs in Tanzania, Senegal and Indonesia have moved from 5-10 percent coverage of the poor to more than 50 percent coverage of the poor within 2-4 years. The reform in the Dominican Republic is another example: a pre-existing cash transfer program was substantially expanded to mitigate the impact of the subsidy reform on the poor.

rice, kerosene, and health services as well as repaying debt and led to slight improvements in labor, education and health outcomes. While two-thirds of the benefits went to the poorest 40 percent of the population, the cash transfer program encountered, nevertheless, several challenges, including the lack of transparency in the selection of beneficiaries (some households receiving transfers should not have been eligible), increasing the fiscal cost of the program.

**The Gabonese Government has increasingly recognized the role of social protection in achieving its development objectives.** The 2021-2023 *Plan d'Accélération de la Transformation* (PAT) goes beyond a strategy for economic diversification to acknowledge the need to strengthen social protection in the country.

For the first time, the Government identifies “ensuring the sustainability of a targeted and equitable social protection system” as a top development priority. In addition, there is high-level recognition of the need for improved equity and targeting when it comes to subsidies.<sup>23</sup> There are ongoing reforms to strengthen the Gabonese social protection system, by redefining the status and cleaning the database of economically weak Gabonese (*Gabonais Economiquement Faibles*, GEF), to be followed by the creation of a special fund (Fonds 4) dedicated to informal sector workers at the Social Security Fund (*Caisse Nationale d'Assurance Maladie et de Garantie Sociale*, CNAMGS). The ultimate goal would be the creation of a social registry, including all social groups and allowing for the universalization of social protection. However, to this date existing social

<sup>22</sup> Yemtov, Ruslan; and Moubarak, Amr. 2018. *Assessing the readiness of social safety nets to mitigate the impact of reform*. Energy Subsidy Reform Assessment Framework (ESRAF) Good Practice Note 5. Energy Sector Management Assistance Program (ESMAP) Paper. Washington, D.C.: World Bank.

<sup>23</sup> “Until now, the gasoline subsidy has benefited a government official or a large company boss who drives a big car, as much as it has benefited a modest family man. That is not fair. That is why I will make sure that more social justice is injected into the system.” President Ali Bongo’s Speech to the Nation, August 2022.

protection programs remain largely underfunded. By matching the spending level of its peers<sup>24</sup> — an additional 1.2 percent of GDP, or USD 180 million annually — the Government could provide every poor household with monthly transfers of USD 110 and immediately cut poverty by a third, to 24 percent.<sup>25</sup> This measure alone would allow the Government to achieve the target set in the PAT for poverty reduction, of reducing the poverty rate to under 25 percent.

**A fuel subsidy reform would create an opportunity for the Government to launch a flagship safety nets program.** Gabon's social assistance system is not only underfinanced, but also highly fragmented, with 19 interventions applied for seven vulnerable groups across four pillars, as set out in the *Stratégie d'Investissement Humain du Gabon* (SIHG). Consolidating cash transfer initiatives into a single, flagship safety nets program targeting poor households<sup>26</sup> would not simply facilitate implementation and reduce administrative costs, but also improve effectiveness. It would constitute a visible measure to demonstrate the Government's strong commitment to poverty reduction and social inclusion, while at the same time building political acceptability for the subsidy reform and preserving social stability.

**There are several examples of countries that have either introduced a new cash transfer program or expanded an existing one in response to a fuel subsidy reform.** For instance, Ukraine revamped its Housing and Utility Subsidy (HUS) to mitigate the impact of its one-shot increase in energy tariffs. The reform focused on minimizing exclusion errors and was accompanied by a strong communication campaign to increase take-up and set clear rules and expectations. Similarly, Jordan introduced compensatory transfers before its fuel subsidy reform in 2012. It also introduced a large-scale cash transfer scheme to support the food subsidy reform in 2018 and the electricity subsidy reform in 2022.

24 UMIC countries spend 1.7 percent of GDP on safety nets, on average. Among Gabon's income level peers in the region, Botswana spends 1.3 percent of GDP, while Namibia, South Africa, and Mauritius spend between 3.0 percent and 3.4 percent of GDP.

25 Impact on poverty reduction based on the UMIC poverty rate (individuals living with less than USD 6.85 per day), under the following assumptions: 121,230 poor households covered by the program, with a 100 percent targeting accuracy, 10 percent administrative costs, and an exchange rate of USD 1 to CFAF 543.

26 The program should rely on three principles to maximize its impact on poverty reduction and ensure value for money: (a) poverty, or GEF status (*Gabonais Economiquement Faibles*), as the primary eligibility condition, with additional social vulnerability criteria potentially used to further tailor the support package; (b) the household as the unit of targeting, not only because poverty is estimated at household level, but also to reduce overlaps and implementation complexity; and (c) integrated targeting, distribution, and monitoring and evaluation (M&E) systems.

## 3.2. Increasing transparency of public financial management

**Some countries have chosen to reinforce trust in public action and public financial management.**

This stronger trust was achieved by promoting greater transparency as part of the mitigation measures offered in the compensation package. Concrete, attributable and monitorable actions were taken, targeting one or several segments of public resources management. Azerbaijan provides an interesting example, where fuel subsidy reform (2006-2007) was accompanied by reforms to improve the transparency of oil revenues and investments to improve electricity services. More specifically, post-reform compensatory measures have gone hand in hand with increased transparency in the management of social safety net mechanisms, including social insurance and targeted social assistance administrations. In Gabon, initial steps are being taken to improve the transparency and management of natural resources, as the country rejoined the Extractive Industries Transparency Initiative (EITI) in October 2021. Enforcing the compliance with EITI requirements, including the publication of reports and adoption of international good practices in revenue management, would send a positive sign to society, towards the most socially beneficial application of savings obtained from a fuel subsidy reform.

## 3.3. Increasing social public spending

**An additional channel to rebuild trust between a government and its constituencies – especially during critical times of a subsidy reform – is to re-target fiscal policy towards social spending, notably in a context where out-of-pocket expenditure for social services is high.** This could generate a double beneficial effect: (i) support the purchasing power of affected groups, especially low-income groups; and (ii)

allow citizens to easily trace the use of savings realized thanks to the reform. Morocco, for instance, reinvested the savings it achieved through its fuel subsidy reform in the early 2010's in social sectors. These savings were redirected to (i) targeted support for poor households through several mechanisms (conditional cash transfers, free medical care for low-income groups, financial support for widows, orphans, and people with disabilities); and (ii) investment projects in the education sector. The Government of Morocco took the opportunity of these mitigation measures to also support the implementation of other sectoral reforms, by conditioning some of its aid to specific items (e.g., school enrollment, and the establishment of a social security number). In Gabon, public spending on social sectors, such as education, health, and skills promotion, could be boosted by the resources derived from an eventual fuel subsidy reform, thereby greatly contributing to an improved human capital and to the nation's development goals.

### 3.4. Supporting the transport sector

**Providing temporary compensation for the transport sector could help prevent higher fuel prices from translating into higher prices for other goods and services.** Examples of short-term measures include the temporary implementation of subsidies to carriers to limit higher fuel prices from being passed on to travelers, especially the most vulnerable households. Such subsidies could be implemented through various mechanisms, such as direct financial support to transporters or travelers, or tax relief targeting the transport sector. Examples include the support for the adoption of energy efficient modes of transportation, the improvement of transport infrastructure which would positively impact the maintenance cost of vehicles, and the implementation of public policies aimed at facilitating mobility (e.g., mass transportation, congestion control through transportation and urban planning). However, such measures can carry high risks of leakage. The Dominican Republic has prevented such abuses by limiting compensation to truck drivers whose vehicles were officially registered with the tax authority. Country experiences with transfers to the transport sector also

highlight the risk of capture of transfers by private operators, without the benefits being passed through to end-users. As a general principle, the closer the benefit is to end-users the highest chance of success of the selected measure. For the case of Gabon, where the gratuity of public transportation in Libreville was adopted since the COVID-19 pandemic hit the country, an expanded support to other transportation services in the country could be considered, as a potentially-needed mitigation measure.

### 3.5. Increasing productive structural public investments

**As with higher social spending, allocating additional resources to productive structural public investments can serve the double purpose of reinforcing trust in public action as well as contributing to a positive structural transformation.** The 2015 subsidy reform in Indonesia was combined with increased spending on health, education, and transfers to local governments.<sup>27</sup> This spending was provided through several mechanisms, such as increased budgetary allocations to particular ministries (Education, Agriculture, Transport, Public Works and Housing), capital increases of key state-owned enterprises in the transport and agriculture sectors, and investment projects in key sectors at the local level (health, mobility, local economy). In line with Gabon's strategic development plans, the funds derived from a fuel subsidy reform could be partially allocated to increased public investments in infrastructure and other productivity-enhancing spending, a much-needed action for tackling the country's development challenges.

<sup>27</sup> Pradiptyo, Rimawan; Akbar Susanto; Abraham Wirotomo; Alvin Adisasmita; and Christopher Beaton. 2016. *Financing development with fossil fuel subsidies: The reallocation of Indonesia's gasoline and diesel subsidies in 2015*. International Institute for Sustainable Development and Global Subsidies Initiative. May.

# Technical Annex 1 – Fossil fuel types and uses<sup>28</sup>

Fuel type	Sub-category	Common uses
Oil	Gasoline	Automotive (light and medium duty, including motor bicycles), aviation, and marine transportation, limited use in very small-scale electricity generation.
	Bioethanol	Automotive (usually blended with gasoline).
	Kerosene	Heating, cooking, lighting, aviation.
	Diesel	Automotive (medium and heavy duty), rail, marine transportation, aviation, heavy equipment, electricity generation, irrigation.
	Biodiesel	Automotive and aviation (usually blended with petroleum diesel fuel), electricity generation, heavy equipment.
	Fuel oil	Electricity generation, industrial production, marine transportation.
Gas	Natural gas (methane)	Electricity generation, industrial production, space and water heating, cooking, refrigeration, automotive, marine transportation.
	Liquefied Petroleum Gas (LPG, butane gas)	Cooking, heating (water, spaces, industrial processes), lighting, refrigeration, automotive.
Coal	Lignite (brown coal), anthracite, bituminous and sub-bituminous	Electricity generation, industrial heating, space heating, cooking.

<sup>28</sup> Kojima, Masami. 2017. *Identifying and quantifying energy subsidies*. Energy Subsidy Reform Assessment Framework (ESRAF) Good Practice Note 1. Energy Sector Management Assistance Program (ESMAP) Paper. Washington, D.C.: World Bank.

# Technical Annex 2 – Defining fossil fuel subsidies in CEMAC

A fossil fuel subsidy can be broadly defined as a deliberate policy action by the government that specifically targets fossil fuels and that results in at least one of the following effects:<sup>29</sup>

- It reduces the net cost of fuel purchased
- It reduces the net cost of fuel produced or delivered
- It increases the revenues retained by those engaged in fuel production and delivery

This definition excludes (i) government inaction (such as weak capacity to implement regulations or tax administrations); and (ii) policy actions which would affect the whole economy, such as lowering the corporate income tax rate or the general income tax rate.

The cost of subsidies can be either covered by direct budgetary transfers (such as direct support to oil producers), foregone fiscal revenues (such as tax exemption at any point of the fuel supply chain), or other implicit channels (such as the underpricing of government or government-regulated inputs to the fuel production and supply chain, transfer of the cost of subsidies from one category of customer to another, as is the case in cross-subsidization, etc.).

In CEMAC, fossil fuel subsidies are distributed through various mechanisms<sup>30</sup> such as:

CEMAC country	Fossil fuel subsidy provision mechanism
Cameroon	Budgetary transfers, tax exemption
Central African Republic	Government-induced transfers between importers and distributors, underpricing of services
Congo, Republic of	Budgetary transfers, tax exemption
Equatorial Guinea	Budgetary transfers, tax exemption
Gabon	Budgetary transfers, tax exemption, Government-induced transfers between consumers

This chapter focuses on the result of fossil fuel subsidies, taking the form of price distortions whereby the price set by the government or charged by the fuel seller (retail price) is purposely maintained below the price that would prevail

<sup>29</sup> This definition is based on the Energy Sector Management Assistance Program (ESMAP) Good Practice Note 1 – Identifying and quantifying energy subsidies, by Masami Kojima.

<sup>30</sup> These mechanisms are based on the nomenclature presented in the Energy Sector Management Assistance Program (ESMAP) Good Practice Note 1 – Identifying and quantifying energy subsidies, by Masami Kojima.

in a competitive market (reference price). This notion leaves aside indirect forms of subsidies to producers (such as credit guarantees or financial assistance, which eventually lower the production cost and/or sale price). However, it allows for an easier cross-country comparison and is commonly used throughout specialized literature.<sup>31</sup>

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<sup>31</sup> Including by the International Energy Agency and the International Monetary Fund.



