Sovereign Debt News Update No. 130: Gabon: World Bank Suspends Disbursements Over Arrears

By:

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Gabon’s sovereign debt situation has taken a concerning turn, with mounting arrears leading to financial repercussions from international lenders. On the 15th of January 2025, Reuters reported that the World Bank had suspended disbursements to Gabon due to the country’s US$27 million in debt arrears. According to Gabon’s Public Accounts Ministry, the suspension was caused by several factors, including an insufficient mobilisation of resources on the international market. This development raises questions about the government's fiscal stability and its ability to service obligations amid declining oil revenues. The World Bank’s decision underscores the severity of the arrears issue, potentially limiting Gabon's access to crucial development financing. It also signals broader concerns regarding Gabon's fiscal management and the risk of further deterioration in its debt profile, particularly facing default.

Despite being an oil-rich nation, with the oil sector now accounting for more than 50% of GDP and 80% of exports, Gabon is grappling with significant debt challenges that have prompted strategic leadership changes. Following the halt by the World Bank, the government has since appointed a Harvard-educated finance expert to lead its debt restructuring efforts. Gabon's military leader, Brice Oligui Nguema, picked Mark Doumba as the new economy minister of economy to resolve the country's debt woes. This move is intended to bolster investor confidence and strengthen negotiations with international creditors. However, analysts warn that leadership changes alone will not resolve the country's structural fiscal challenges. With Gabon's economy heavily dependent on oil, fluctuating global prices and declining production levels continue to pose significant threats to revenue generation, further complicating debt sustainability.

In November 2024, Gabon enlisted the services of Rothschild Bank to navigate its mounting debt crisis, especially considering a number of debt repayment deadlines Gabon is facing in 2025. According to Africa Intelligence, this strategic move aims to restructure Gabon's obligations and restore confidence among creditors. Rothschild's involvement suggests that the government is considering a range of financial instruments to manage debt repayments, including potential restructuring or renegotiation of terms with private and institutional creditors.

However, this reliance on external advisory services highlights the limited fiscal space available to African nations and raises concerns about the long-term implications of such financial decisions on sovereignty and economic policy independence. However, concerns persist over whether Gabon is on the brink of default. According to The Africa Report, the country faces a precarious financial future due to declining oil revenues, growing arrears, and increasing reliance on external advisors. Analysts suggest that unless urgent measures are taken to stabilize public finances, Gabon could find itself in a deeper economic crisis. The risk of default could have widespread implications, including further credit rating downgrades, reduced investor confidence, and heightened borrowing costs. The government's ability to implement effective fiscal policies while securing favourable debt restructuring terms will be critical in determining Gabon's economic trajectory in the coming years.

Analysis

The situation in Gabon underscores the broader structural challenges African economies face in managing sovereign debt. The suspension of World Bank disbursements highlights the real risks of liquidity crises when debt sustainability concerns are not proactively addressed. Gabon, which is also OPEC member, also has US$700 million of Eurobonds maturing in June, and $1.8 billion in 2031. The yield on notes due 2025 fell 26 basis points Thursday 16 January 2025 to 12.77% and the rate on 2031 notes was down 14 basis points to 11.51%. Gabon' case requires an analysis beyond the numbers. With the country now set on a path to default or extreme distress, this will have significant impact on citizens as consolidation programs will reduce social spending while most of the money is dedicated to address the growing debt burden.

There has also been a common trend among African nations seeking financial advisory support from global investment banks. Interestingly, Rothschild and Co. Banker can be singled out as it has increasingly become a repeat player as a financial advisor for African governments. As reported in the One Hundred and Twenty-Sixth Sovereign Debt News Update, Zimbabwe's government recently hired financial and legal advisers to help navigate potential talks with international creditors over the $21 billion it owes. Other countries include Cameroon and Ghana. The involvement of Rothschild Bank and other foreign advisors signals a trend where African nations remain dependent on Western financial expertise on debt, often at the expense of developing domestic/regional capacity for economic policy formulation. Undoubtedly, this leads to economic policies that advocate for "austerity for prosperity" models, with little regard as to the impact on the citizens.

Conclusion

As Gabon navigates these turbulent financial waters, the role of international financial institutions in shaping economic policies of debtor nations must be scrutinized. The unfolding situation in Gabon serves as a critical case study on the importance of fiscal transparency, accountable governance, and the need for global economic justice frameworks that protect African economies from unsustainable debt burdens. More importantly, such frameworks must emanate from inclusive debtor-led platforms, rather than private entities.

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