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Trends in Developing Economies Extracts

VOLUME 3. Sub-Saharan Africa

1995

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Trends in Developing Economies 1995

Extracts

VOLUME 3. Sub-Saharan Africa

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Foreword

This new regional issue of extracts from *Trends in Developing Economies (TIDE)* presents brief analytical descriptions and data on recent economic performance and trends in 41 economies of Sub-Saharan Africa. The democratization process adopted in these economies is moving ahead. Despite economic and political hardships, reform programs have survived in most economies and have even been strengthened in some. Some economies are responding to various actions directed to strengthen regional cooperation.

This extract volume is published for the convenience of readers who are particularly interested in the 41 economies of Sub-Saharan Africa. Like other *TIDE* volumes this is designed as a ready reference for the economic analyst, investor, researcher, or business person who wants a brief and up-to-date description of recent socio-economic trends in this region. This first edition covers most of the economies in the region; some economies are not included because socio-economic conditions were changing too fast to write with confidence about the current situation.

The text, tables, and graphs are the same as in the main *TIDE* book, which includes 119 developing economies. The tables on each economy provide information on key ratios, GDP accounts, social conditions, and international transactions. By making this information widely available, the World Bank hopes to contribute to increased understanding of the developing economies of Sub-Saharan Africa.

Masood Ahmed
Director
International Economic Department

Introduction

This special extracts volume of *Trends in Developing Economies* (*TIDE*) provides brief reports on 41 Sub-Saharan African economies as of May 1995. The text, tables, and graphs are derived from the main *TIDE* book, which includes 119 developing economies. *TIDE* complements the World Bank's comprehensive country studies and annual reviews, such as the *World Development Report* and *Global Economic Prospects*, which look at global and regional economic trends and their implications for developing economies.

TIDE draws on information from national sources and adds commentary on recent economic developments. In many instances, the data for the most recent years are preliminary World Bank staff estimates that are subject to revision. Although they may not conform to data published by national authorities, the differences are generally not considered analytically significant. However, readers should pay careful attention to the provisional character of the data and commentary reported here.

The text is concerned mainly with current events and the recent past of each economy. It places events in context by bringing out the distinguishing characteristics of an economy, its problems and prospects, and the principal elements of its development strategy. While the choice of topics may vary from one economy to another, several themes recur: government initiatives in progress or under consideration, economic and social factors affecting development, and external finance and debt issues.

For each economy the descriptive text is followed by tables of socio-economic indicators and graphs. The "development diamond" graph portrays relationships among socio-economic indicators for an economy compared with the average of the income group to which it belongs. The other graphs also help users to visualize relationships among economic indicators and to facilitate comparisons among economies. Differences in data between text and tables may reflect the use of data of different vintages or variations in definitions and concepts. The tables contain the latest available information, although it is not always comparable across countries and time periods. The Socio-Economic Data Division of the World Bank's International Economics Department welcomes comments. A new product containing the full text and data from *TIDE* and using the ☆STARS☆ is also available on diskette and CD-ROM.

Readers interested in more detailed descriptions of the economic indicators should refer to other World Bank publications, notably *World Development Report, Global Economic Prospects*, *World Tables*, and *World Debt Tables*. The statistical tables and notes in these publications are available on diskette, using the ☆STARS☆ retrieval system. A CD-ROM containing data and material from many of these publications will be released shortly. Readers interested in more comprehensive country studies should write to the Distribution Unit, Office of the Publisher, 1818 H Street, N.W., Washington, D.C. 20433, U.S.A. for a copy of the World Bank's *Index of Publications*.

Symbols and Abbreviations

..	Data not available or nonexistent
0.0	Zero or less than half the unit shown
AIDS	Acquired immune deficiency syndrome
c.i.f.	Cost, insurance, and freight
f.o.b.	Free on board
GATT	General Agreement on Tariffs and Trade
GDP	Gross domestic product
GNP	Gross national product
CFAF	Communauté Economique Africaine (franc zone)
LIBOR	London interbank offered rate
MPLA	Popular Movement for the Liberation of Angola
nfs	Nonfactor services
NGO	Non-government organization
UNDP	United Nations Development Programme
UNITA	the Union for the Total Independence of Angola

Overview

The rise in commodity prices in 1994 (particularly for coffee, cocoa, cotton, and metals) is the most important external factor in Sub-Saharan Africa's near-term outlook. Beverages account for more than a third of export earnings in ten African countries, and cotton a quarter or more in Sahelian countries, such as Benin, Burkina Faso, Chad, and Mali. Exporters of copper (Zaire, Zambia), bauxite-alumina (Guinea, Sierra Leone), and gold (Ghana, Mali) will also gain from price increases.

The rise in prices is expected to be temporary, however, the result of transitory supply shocks and normal cyclical forces whose influence is expected to fade over the next one to two years, with real prices in 2005 no higher than in 1990. But even a flat long-run trend would be better than the 3.6 percent a year fall in regional terms of trade in 1981-93, which generated annual income losses worth 0.9 percent of GDP. In 1994-2004 the terms of trade are expected to rise a marginal 0.3 percent a year, generating income gains of 0.1 percent of GDP a year. The swing between the two periods of 1 percent of GDP a year would make an important contribution to improving growth conditions for the region.

Export demand should also improve with recovery in Europe—which takes half the region's exports—and more competitive real exchange rates. Adjusting countries outside the CFA zone that have carried out and maintained real devaluations since the mid-1980s experienced export growth of about 4.5 percent a year in 1987-93 and a rise in GDP growth from near zero in the first half of the 1980s to 4 percent. Export and output growth in the CFA-zone countries is expected to benefit significantly from the 50 percent devaluation (in foreign currency terms) of the CFA franc in January 1994 and the associated debt relief and external financing programs, if they are adequately supported by reduction of large budget deficits, monetary discipline, and structural reforms of public enterprises, the financial sector, and the trade and regulatory regimes. Progress in this regard is mixed. The adverse impact on African exports of the erosion of tariff preferences under the Uruguay Round is estimated to be relatively small. African export growth is expected to pick up to 4 percent a year in 1995-2004, from 2.8 percent in 1985-94.

Prudent management of near-term windfall gains to strengthen stabilization and structural reform policies will be crucial if they are to contribute to higher long-term growth in Sahelian countries. But if, as in the 1970s, temporary price increases are mistaken for permanent ones and lead to weaker commitment to reform and large increases in inefficient public spending and external borrowing, the commodity price boom could lead to even worse long-term growth performance than if it had not happened.

More often than not, countries have failed to follow the rational course. In earlier price booms (e.g., Côté d'Ivoire in the 1976 coffee boom), beneficiaries have tended to consume much of the windfall and to increase investment predominantly at home, most often in large public sector projects with low rates of return. Countries that consume rather than save windfalls and that invest the windfall disproportionately at home rather than reduce foreign debt or invest abroad can penalize themselves in three ways. They adopt an unsustainable pattern of consumption. They obtain low returns on investment and fail to diversify their assets. And they tend to suffer from "Duthch disease," where the real exchange rate appreciates and the growth of tradables is stunted, compromising the role international trade can play as an engine of growth and innovation for the whole economy.

The very modest economic growth of recent years is reflected in the performance of the region's social indicators, especially those for women and children, who make up a large proportion of the disadvantaged population. The total fertility rate declined marginally, from 6.4 births per woman in 1987 to 6.2 births in 1993, a drop of three percentage points; female primary enrollment increased correspondingly by 3 percent, from 58 in 1987 to 60 in 1992. This compares unfavorably with low income countries, where fertility declined by over 12 percent and primary enrollment increased by 9 percent in the same period. While childhood immunization against measles increased more substantially, from 35 percent in 1986 to 50 percent in 1992, only half the population has access to health care, leaving the poor particularly disadvantaged. For the poorest countries in the region, the move is alarming, with 17 percent less of

the population having access to health services in 1990 than in 1985.

Improvements in living standards and poverty reduction therefore continue to pose a challenge for governments. Sub-Saharan Africa has a large—and growing—proportion of its population living below the poverty line; between 1985 and 1992, the number of poor rose by almost 1.5 percent. This is further exacerbated by the high rate of population growth in many countries. In 1993, the population was growing at 2.9 percent and was expected to reach 1.3 billion by the year 2025. From the governments' point of view, the already overburdened capacity to render social services is being further stressed. The strategy for poverty reduction therefore should be based on increasing the rate of economic growth and enhancing opportunities and social services. Investment in women's education and promotion of their access to productive resources is particularly likely to pay large dividends both by promoting economic growth and by reducing population growth.

Sub-Saharan Africa forecast summary

Growth rates (percent per year)	*1985-90*	*1990-94*	*1995-2004*
GDP	2.4	0.8	3.8
Consumption per capita	-1.7	-1.7	1.2
GDP per capita	- 0.6	-2.0	0.9
Export (GNFS) volume	3.1	2.2	4.0
Median inflation[a]	10.2	9.0	8.0
Foreign reserves ($billions)	7.7	11.8	18.2

a. GDP deflator.
Source: World Bank estimate.

Angola

Angola is the fifth-largest country in Sub-Saharan Africa, and its population of about 11 million is growing at 2.8 percent a year. Population density is low at 8 inhabitants per square kilometer. GNP per capita was estimated at $600 in 1992. Its rich natural endowment includes petroleum, diamonds, and other mineral resources, abundant arable land, a diversified climate that favors a wide variety of agricultural crops, cattle, and fisheries, and considerable hydroelectric and irrigation potential. Before independence in 1975 Angola's infrastructure was relatively well developed; it has deteriorated substantially because of lack of maintenance and damage from the war. Angola has suffered from armed conflict for three decades, first in the struggle for independence and subsequently in a long and destructive civil war between the Popular Movement for the Liberation of Angola (MPLA), and the Union for the Total Independence of Angola (UNITA). The transition to a democratically elected government, initiated after a cease-fire in May 1991, was derailed by renewed fighting soon after elections in the fall of 1992. In November 1994 the MPLA-led government and UNITA signed a new peace agreement.

Angola's economic growth after World War II was stimulated by investment in coffee plantations that made it the world's fourth largest coffee exporter by 1974, and oil production, which started in the late 1950s and reached 144,000 barrels a day by 1973. From 1960 through the end of the colonial period in 1974, GDP growth averaged about 8 percent a year in real terms. Economic opportunities attracted Portuguese settlers, whose number rose from 40,000 in 1940 to 340,000 in 1974. The benefits of growth, however, were not equally distributed. A significant proportion of the rural population was employed in the plantations, mines, and factories until 1961 under a system of forced labor and, after that, at very low wages. The vast majority of Angolans lived in poverty, and social indicators were below regional averages.

The armed struggle for independence, the subsequent exodus of most Portuguese settlers, civil war, and misguided economic policies led to a drastic contraction of output, deteriorating social standards, and environmental degradation. Nonoil per-capita GDP has declined steadily in real terms since 1975. From a net exporter of agricultural products, Angola has become increasingly dependent on food imports to supply its urban population, while much of its fertile land lies fallow. Skilled labor and managerial talent are scarce. Infrastructure has been ravaged by war and neglect.

Angola's war economy has been fueled by the growth of the oil industry, whose output increased 6 percent a year between 1973 and 1993 to over 500,000 barrels a day, and exploitation of diamonds. Over 1991-93, oil exports generated over 90 percent of Angola's export revenue, equivalent to about $300 per capita. Oil revenue financed the government's war effort and met the basic needs of the urban elite, mostly public-sector employees. The government has used central planning and administrative controls to manage most of the modern economy. The rest of the economy, including diamond mining, has relied on informal activities. Most farmers have reverted to subsistence.

Angola had a command economy from 1975 through 1991. Several economic reform programs formulated between 1987 and 1990 were not implemented. Administered exchange rates, prices, and interest rates resulted in large distortions, uneconomic use of resources, and lack of transparency. Nonoil investment and exports were discouraged, and traditional agricultural exports virtually disappeared. Persistent large public sector deficits, particularly after 1985, were financed through money creation, fueling inflation. The 1991 budget deficit was equivalent to 23 percent of GDP, and inflation reached 175 percent. Given a fixed exchange rate pegged to the dollar, the new kwanza quickly appreciated, and by 1991 it commanded only 17 percent of its official value on the parallel market. The overvaluation of the kwanza severely distorted relative prices, encouraged excessive unproductive imports and capital-intensive investment, and led to increasing failure to meet domestic demand for most goods and services. Excess demand for foreign exchange was curtailed through administrative controls. Government policies encouraged consumption through widespread consumer price subsidies and remunerating civil servants in kind by granting them access to rationed goods, partly in lieu of

cash payment of wages. A relatively small proportion of the population thus appropriated the bulk of consumer goods, including imports, at prices substantially below market. Similarly, state-owned enterprises sold part of their production at below-market prices to their employees. Public employees traded these underpriced goods on the parallel market for food and consumer goods unavailable in state stores.

Recent Economic Developments

The government tried several policy measures over 1991-93 to reduce price distortions and improve the incentive framework, but they were not complemented by fiscal and monetary restraint and were sometimes reversed. The exchange rate was devalued by a cumulative 92 percent in foreign currency terms through February 1993, from NKz 580 to NKz 7,600 to the dollar, with the latter figure determined by a pilot auction of foreign exchange as a step toward unification of exchange rates. Commercial banks were authorized to trade foreign exchange at rates close to the parallel market rate, in-kind compensation of public employees was replaced with monetary wages, producer and consumer price controls were eased — with the notable exception of utilities, petroleum products, and essential commodities — and profit margin controls were removed from all but 25 goods and services, including common medicines, agricultural tools, utility rates, and petroleum products. The partial reforms were largely derailed by the inflationary impact of fiscal deficits that were over 38 percent of GDP in 1992 and 21 percent in 1993. Inflation was about 500 percent in 1992 and 1,800 percent in 1993. Moreover, the government reintroduced a fixed dollar exchange rate, set at NKz 4,000 in April 1993, and NKz 6,500 in November. The gap between official and market exchange rates widened again as the kwanza fell to NKz 106,000 to the dollar at year's end in the parallel market.

In 1994 the government proposed stabilization measures within a framework of economic, legal, and institutional reform. The program aimed to cut the fiscal deficit and to reduce monthly inflation from 30 percent in January to 2 percent by December 1994. Fiscal targets implied major cuts in government spending and were set with the expectation of additional official and private external capital flows. The program envisaged quick introduction of market mechanisms to replace administrative controls, including removing most remaining price controls and subsidies, and privatizing some state assets. Program results were mixed: real 1994 GDP growth is estimated at 5 percent; inflation at 900 percent (about half the 1993 rate) and the ratio of the parallel market exchange rate to the official rate was reduced to 3:1 from 16:1 at the end of 1993. However, in December 1994 monthly inflation rose steeply to about 58 percent, and the reform process appears to have lost momentum.

Social Indicators

Angola's social indicators declined as a result of the civil war, inappropriate public expenditure policies, rapid rural migration, and emigration of skilled manpower. Life expectancy at birth was estimated at 46 years in 1990; the infant mortality rate was 129 per 1,000, less than 30 percent of the population had access to health services and safe water, and the adult literacy rate was 42 percent. The regional disparity in social conditions is substantial. Rural poverty is acute, due to disruption of production, interruption of trade with urban areas and between regions, shortage of traded goods, and lack of access to social services. Women's access to basic educational opportunities has been expanded; their literacy rate, although low at 28 percent in 1989, is higher than before independence. Women are well represented in the civil service and hold senior positions.

Recent Political Developments

Angola initiated a process of national reconciliation in 1991 and replaced its single-party system with a democratically elected government. In May 1991 MPLA and UNITA signed a comprehensive peace agreement mediated by Portugal, the United States, and the then Soviet Union and assisted by about 600 United Nations peacekeeping troops. The agreement set a detailed timetable for demobilization, creating an integrated national army and multiparty elections.

Despite some delays, the peace process was generally on track until the elections in September, although demobilization of the MPLA and UNITA armies was well behind schedule. The new national army, with a purely defensive mission, was formally established and began to be organized under the guidance and direct assistance of Portugal, France, and Great Britain, although genuine integration of the opposing forces was not successful.

Elections for the National Assembly and the first round of presidential elections were calm and orderly, and were monitored by the United Nations and other external observers, who pronounced them fair. With over 90 percent of registered voters participating, the government party received 53.7 percent of the votes cast for the National Assembly, the rebel party 34.1 percent; the balance was divided among 16 other parties. As no presidential candidate obtained an absolute majority, a second ballot was needed to choose between the two front-runners.

UNITA refused to accept the outcome of the elections, moved its headquarters from Luanda to Huambo,

Angola's second largest city; withdrew from the Unified National Armed Forces; and resumed fighting. It gained control of large parts of the country but lost much of it in 1994. There was considerable international pressure on both sides to make peace. A UN-brokered peace initiative was successfully concluded in Lusaka in November 1994 with the signing of new peace accords.

Medium-Term Outlook

Angola requires durable peace and firm commitment to economic stabilization and structural adjustment to develop its considerable economic assets; it has the potential for sustained growth with equity and economic diversification, and could aspire to triple its per capita income in one generation and join the group of middle-income countries.

Angola's economy could grow at 6 to 7 percent a year through further growth of petroleum and mineral production, the recovery of agricultural production, and selective industrial development. During a transition period of five to eight years, Angola would need considerable external support, including extensive debt restructuring and relief. Reduced public spending resulting from peace and fiscal restraint could increase total saving from about 11 percent of GDP in 1994 to 18 percent of GDP by the beginning of the next decade. While the peace dividend could be substantial, in the near future the cost of demobilization and reintegration of excess military personnel, de-mining and infrastructure rehabilitation, administrative and civil service reform, and other structural measures will be high. During the transition period, Angola will face a saving gap projected at 7 to 8 percent of GDP, assuming rescheduling of substantial external arrears under favorable conditions.

External Debt

Angola's long- and medium-term external debt at end-1994 was estimated at $9.6 billion (excluding interest arrears and moratorium interest), of which 55 percent was owed mostly to the former Soviet Union, China, Cuba, and Eastern European countries; 38 percent to Western bilateral creditors; and 7 percent to multilateral agencies. Over half of the debt is war-related. In June 1989 the then Soviet Union rescheduled its loans, including arrears and maturities falling due through 1990, on favorable terms, and that July the Paris Club rescheduled nearly $550 million in arrears and maturities falling due through September 1990; other Western creditors have rescheduled their debt on similar terms. The remaining maturity profile, however, is unfavorable for the medium term; unless restructured, debt service obligation over 1995-97 (including penalty interest but before clearing of arrears) would absorb about half of projected exports of goods and services.

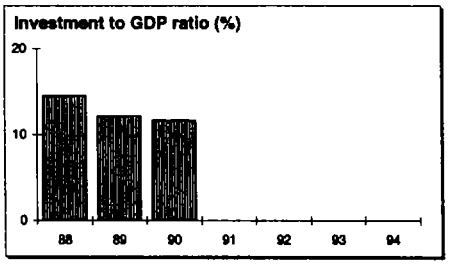
Angola

Population mid-1993 *(millions)* **10.3**
GNP per capita 1993 *(US$)* ..

Income group: **Lower-middle**
Indebtedness level: **Severely indebted**

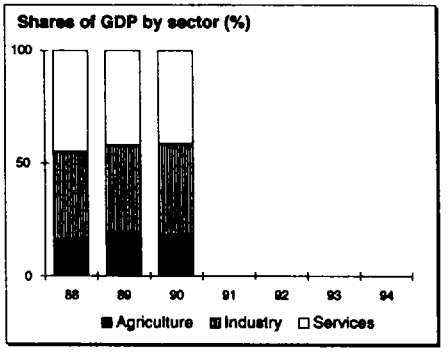
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	17.8	11.7	..	..	..
Exports of goods and nfs/GDP	32.9	38.9	..	..	..
Gross domestic savings/GDP	22.0	26.8	..	..	..
Gross national savings/GDP	20.4	18.7	..	..	..
Current account balance/GDP	3.0	-2.3	..	..	..
Interest payments/GDP	0.4	0.9	..	..	..
Total debt/GDP	36.4	78.0	..	..	..
Total debt/exports	102.8	200.9	238.8	336.6	..



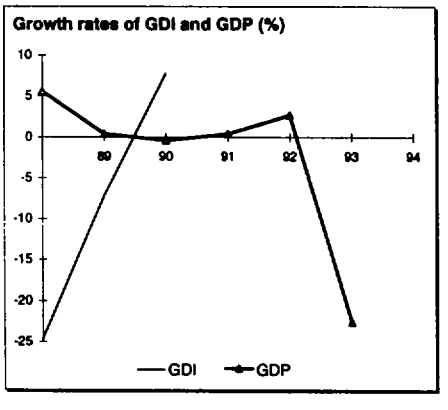
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	13.4	17.9	..	..	..
Industry	42.9	40.7	..	..	..
Manufacturing	9.6	5.0	..	..	..
Services	43.7	41.4	..	..	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	0.5	..	..	..	..
Industry	6.4	..	..	..	..
Manufacturing	-11.1	..	..	..	..
Services	1.8	..	..	..	..
GDP	3.5	*-6.3*	2.7	-22.6	..



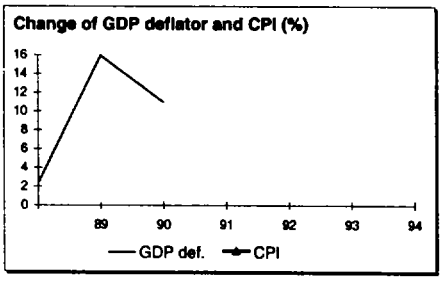
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	47.0	44.7	..	..	..
General government consumption	31.0	28.5	..	..	..
Gross domestic investment	17.8	11.7	..	..	..
Exports of goods and nfs	32.9	38.9	..	..	..
Imports of goods and nfs	28.7	23.8	..	..	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	-0.6	..	..	..	..
General government consumption	2.1	..	..	..	..
Gross domestic investment	-6.8	..	..	..	..
Exports of goods and nfs	14.7	..	..	..	..
Imports of goods and nfs	1.2	..	..	..	..
Gross national product	2.0	..	..	..	..
Gross national income	1.1	..	..	..	..



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	..	..	..	..	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	..	11.0	..	..	..
Government finance					
(% of GDP)					
Current budget balance	-1.3	-14.2	..	..	..
Overall surplus/deficit	..	..	..	..	..

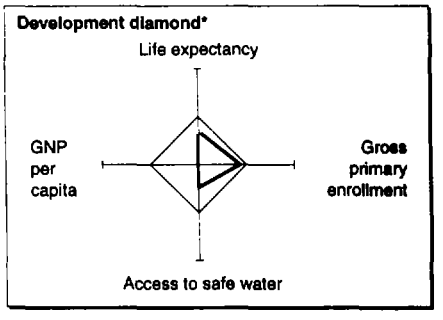


Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

POVERTY and SOCIAL

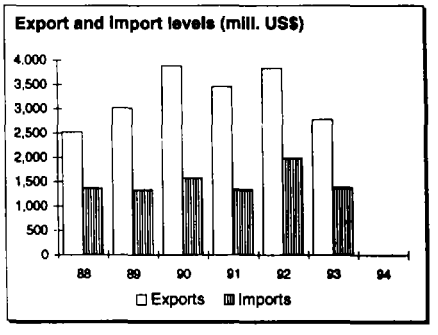
	1985-90	1990-94
(annual growth rates)		
Population	2.8	*3.7*
Labor force	1.9	2.1

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	47.0
Infant mortality *(per 1,000 live births)*	121.6
Child malnutrition *(% of children under 5)*	20.0
Access to safe water *(% of population)*	37.6
Energy consumption per capita *(kg oil equivalent)*	95.9
Illiteracy *(% of population age 15+)*	58.3
Gross primary enrollment *(% of school-age population)*	91.0



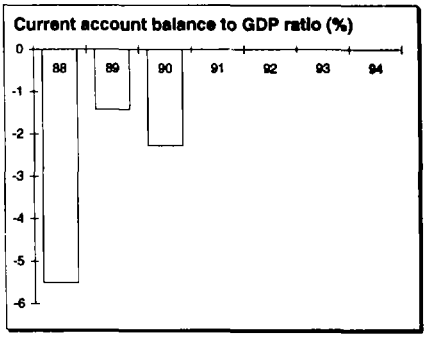
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	2,301	3,884	3,833	2,783	..
Other fuel	1,946	3,525	3,490	2,688	..
Diamonds	74	242	250	15	..
Manufactures	..	..	..	..	..
Total imports (cif)	1,402	1,578	1,988	1,388	..
Food	..	..	..	..	..
Fuel and energy	..	..	..	..	..
Capital goods	..	..	..	..	..
Export price index *(1987=100)*	..	..	..	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP,%)*	62	63	..	..	..



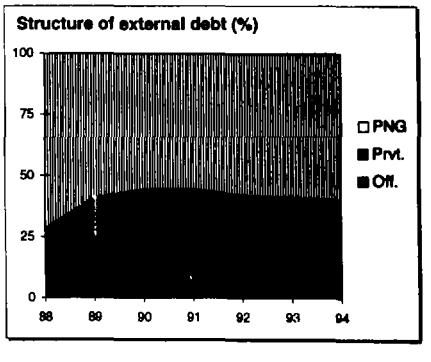
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	2,408	3,992	3,978	2,858	..
Imports of goods and nfs	2,095	3,395	4,087	3,278	..
Resource balance	313	597	-109	-420	..
Net factor income	-130	-755	-824	-707	..
Net current transfers	21	-77	102	132	..
Current account balance					
Before official transfers	204	-235	-831	-995	..
After official transfers	204	-235	-831	-995	..
Long-term capital inflow	454	-608	-447	-470	..
Total other items (net)	-637	807	1,427	1,189	..
Changes in net reserves	-21	37	-150	276	..
Memo:					
Reserves excluding gold *(mill. US$)*	..	..	..	..	..
Reserves including gold *(mill. US$)*	..	..	..	..	..
Conversion rate *(local/US$)*	29.9	29.9	457.0	4,832.0	..



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	75.3	177.7	189.6	269.4	..
IMF credit/exports	0.0	0.0	0.0	0.0	..
Short-term debt/exports	27.5	23.1	49.2	67.2	..
Total debt service/exports	6.4	7.5	6.2	5.3	..
GDP ratios					
Long-term debt/GDP	26.7	69.0	..	..	..
IMF credit/GDP	0.0	0.0	..	..	..
Short-term debt/GDP	9.7	9.0	..	..	..
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	84.1	55.7	58.2	59.2	60.1
Official creditors/long-term	15.9	44.3	41.8	40.8	39.9



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Benin

Benin is a country of more than 5 million people with a 1993 GDP of about $2.2 billion. Its economy is highly open and strongly dependent on primary and tertiary activities. The primary sector, which accounts for 33 percent of GDP, provides Benin's largest export commodity: cotton. A large tertiary sector dominated by commerce accounts for 53 percent of GDP, and Benin's dynamic re-export activities provide about 45 percent of export revenues. A small secondary sector accounts for about 14 percent of GDP.

A new constitution was approved by referendum in December 1990 and multiparty legislative and presidential elections were held in February-March 1991. Legislative and presidential elections are scheduled for 1995 and 1996.

After nearly two decades of state-led development, Benin embarked in 1989 on an ambitious economic reform program, supported by IDA and the IMF, and the new government attempted to deepen the reforms and strengthen adjustment efforts through a second phase reform program over 1991-93.

Recent Economic Developments

Together with its partners in the CFAF zone, Benin devalued the CFA franc from CFAF 50 to CFAF 100 to the French franc in January 1994. By increasing Benin's external competitiveness this measure strengthened the ongoing adjustment program, which had already shown encouraging results over 1990-93.

In 1994 real GDP growth is estimated to have reached 3.4 percent, mainly as a result of the strong performance in the cotton subsector, a recovery of textile production supported by new export opportunities, and higher construction activity. The primary current budget surplus rose to 2.8 percent of GDP, and the overall budget deficit (on a commitment basis, excluding grants) to the equivalent of 6.6 percent of GDP. As a result of increasing export revenues and a decline of volume imports following the CFAF devaluation, the current account deficit (before grants) fell from 7.5 percent of GDP in 1993 to 3 percent of GDP in 1994. Reflecting this strong performance and an increase in private capital inflows, the overall balance of payments ended in a surplus estimated at $78 million, despite a shortfall in external disbursements from 1993 levels. Against this positive outcome, serious concern remains about inflation, which reached an annual average rate of 29 percent in 1994.

The objectives of the reinforced adjustment strategy include accelerating real GDP growth to 5 to 6 percent from 1995 onward, further reducing domestic and external imbalances to attain sustainable balance of payments and budgetary positions and enable Benin to be less dependent on foreign assistance, alleviating poverty and improving basic social services, rehabilitating social and physical infrastructure, and improving human resources. A broad tax reform is simplifying the tax system, broadening the tax base, and improving the tax administration. After the corporate profit tax rate was reduced from 48 to 38 percent, a single rate value-added tax of 18 percent covering most goods and services was introduced in 1991. In 1994 the government extended the VAT to the telecommunications sector, petroleum products, and the retail trade. A single business tax and a unified real estate tax were introduced, and the minimum turnover presumptive tax was eliminated.

External trade reform included removing quantitative restrictions and simplifying import tariffs. In 1993 remaining import licensing was removed, and in January 1994 the tariff structure was simplified from 12 rates to 4 and the system of reference values was eliminated. In fiscal 1996 the government intends to extend VAT coverage to sugar and cement, modify the graduated tax on wage income and revise the personal income tax by lowering the rates and reducing the number of brackets, reduce to a minimum the number of products subject to the zero import tariff rate, tighten the system of exemption from VAT and customs duties under the investment code, eliminate special import tariff exoneration regimes, and improve customs administration.

Deregulation measures have also progressed. Although price controls were lifted for most commodities in 1991 and the state monopoly on domestic trade was dismantled, the government introduced a list of additional temporary margin controls after the CFAF devaluation. The government plans to eliminate them; limit price controls to petroleum products and bread; and

price homologation to water, electricity, schoolbooks, pharmaceuticals, and cement in 1995, before proceeding to their total elimination in a second stage. Proposed laws would also give more flexibility and incentives to private-sector activities.

Public enterprise reform was initiated in 1989, and the number of enterprises in the state portfolio was brought down from 45 in 1989 to 32 — including 20 commercial and industrial enterprises and 12 administrative agencies — in 1993. The government is committed to complete divestiture of eight more enterprises in 1995, and defining a divestiture strategy for two textile firms. Subject to agreement with the Nigerian government, two companies jointly owned with Nigeria will be also privatized. The government intends to convert the cotton processing and marketing company into a mixed-capital company by opening its capital initially to cotton farmers. The National Palm Oil Company's industrial units are to be restructured this year and divested in 1996. Finally, the government will implement a liberalization strategy for the petroleum sector by selling 75 percent of distribution outlets, transferring the management of storage installations to private companies, and privatizing transport.

Public expenditure reform aims at improving the structure of current expenditures to provide adequate allocations for essential services, particularly in primary health, education and basic infrastructure maintenance, decreasing the share of personnel expenditure relative to operating and maintenance expenditure, and eliminating domestic arrears by 1996. Monetary policy, pursued in the framework of the Western Africa Economic and Monetary Union, aims at limiting increases in domestic prices and, through a policy of tight credit to the government, providing adequate room for increasing credit to the private sector. Progress has been made in recovering liquidated bank assets and reimbursing depositors, and five private banks are now operating in Benin. The government intends to continue programs to improve the legal framework for financial activities, increase competition among financial institutions and improve financial intermediation, and improve the rural credit network and adopt regulations for mutual credit and saving institutions.

The government is overhauling the public administration by reorganizing three key ministries, streamlining personnel and strictly limiting new hiring. It has audited five other organizations and is studying reorganization of the remaining ministries as a basis for a long-term strategy for administrative reform. Action plans for the audited ministries are expected to be adopted before the end of 1995.

The government has also introduced measures to improve economic management. The budgeting process improved with the adoption of new procedures and a unified presentation for the budget. Despite improvements in programming and monitoring, project execution and implementation remain problematic.

Poverty and Social Indicators

Despite poor social indicators, the policies implemented under the adjustment program have improved living standards. Real GDP per capita increased at an average annual rate close to 1 percent over 1991-94 and is expected to grow about 2.5 percent a year from 1995. Higher cotton producer prices and production increases have raised income among the rural population, particularly after the CFAF devaluation.

The reinforced structural adjustment program, in conjunction with the policy reorientation in key sectors such as health, education, rural development, and infrastructure, will continue playing an important role in reducing poverty. Increased budget allocations for health, education, and road maintenance in 1995 will contribute to improving the living conditions of the poor by increasing access to basic social services and decreasing the cost of marketing. Other specific actions include a community-based food security project, which will contribute to reducing the vulnerability of the rural population particularly at risk, and two labor-intensive public works programs to create employment, especially in urban areas.

Medium-Term Prospects

Economic growth in Benin should reach 5 to 6 percent from 1995 onward, significantly above the population growth rate of 3 percent, assuming continued strong performance of the cotton sector and an overall increase in the gross investment rate from 13.9 percent of GDP in 1993 to 17 to 18 percent of GDP in 1999.The agricultural sector will remain the main source of growth, with the efficient cotton subsector leading the expansion. Efforts to rehabilitate and liberalize the subsector will concentrate on expanding private ginning and storage capacity, and promoting greater private-sector participation in processing and marketing activities to increase competition. Improved regional competitiveness and efficient input supply should enhance the growth prospects of food crops, fruits, and vegetables. Efforts to diversify agriculture production will also be intensified by improving extension and private sector marketing and export activities.

The secondary sector is projected to grow about 6 percent a year over 1995-99, based on substantially improved export prospects following the devaluation. Efficient production growth will be fostered by further privatization and restructuring of public-sector enterprises, fiscal reforms, and a revision of the regulatory

framework. These measures, combined with increased competitiveness in the regional transit trade and implementation of a new transport strategy, should also benefit tertiary sector activities, which are projected to grow by about 5 percent annually during the period.

Achieving the projected growth rates will require increases in private investment from an average of 6 percent of GDP over 1990-93 to about 8 percent of GDP from 1995, increase in public investment from 7 percent to about 9 percent of GDP in 1995-99, and qualitative improvements in preparing and executing public investment projects. Domestic savings are estimated to have increased from 4 percent of GDP in 1993 to 9 percent of GDP in 1994, and are projected to grow to 12 percent of GDP by 1999, reflecting increases in public and private savings as a result of renewed confidence in the political and economic situation, improved fiscal management, and more opportunities for investment.

Improvements in the current account balance are expected to come from continued strong performance of cotton exports and expanding re-export activities as regional competitiveness is restored. The current account deficit, excluding official grants, is expected to remain below 5 percent from 1995. Export receipts, including re-exports, are projected to grow about 9 percent a year over 1995-99. Reflecting mainly an increase in capital goods imports consistent with the projected investment growth, the value of imports, including re-exports, is projected to grow by about 8 percent a year for the period.

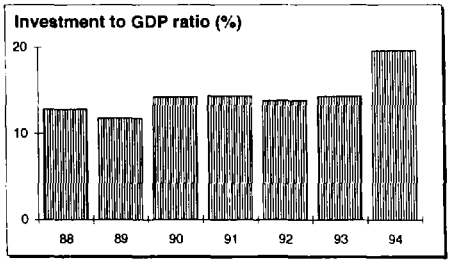
Benin

Population mid-1993 *(millions)* **5.1**
GNP per capita 1993 *(US$)* **430**

Income group: **Low**
Indebtedness level: **Moderately indebted**

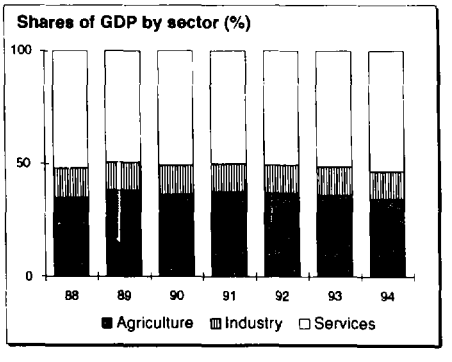
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	8.9	14.2	13.8	14.3	19.6
Exports of goods and nfs/GDP	34.4	21.8	23.3	22.1	26.9
Gross domestic savings/GDP	0.8	5.5	3.9	3.5	9.4
Gross national savings/GDP	4.7	8.0	5.0	6.0	11.0
Current account balance/GDP	-4.2	-6.2	-8.0	-7.4	-3.2
Interest payments/GDP	1.3	0.8	0.5	0.7	2.2
Total debt/GDP	78.1	66.4	63.3	70.0	101.4
Total debt/exports	203.2	245.2	218.9	256.3	381.2



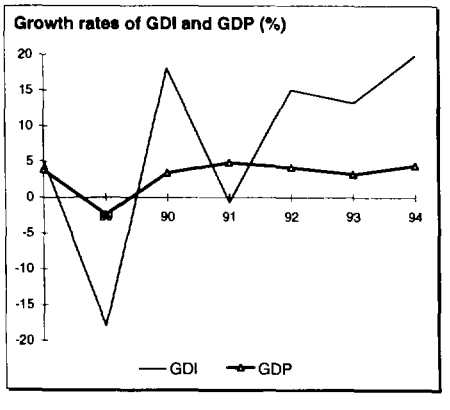
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	31.9	36.1	36.7	35.8	34.2
Industry	16.7	13.2	12.7	12.9	12.3
Manufacturing	7.6	7.8	7.8	7.8	7.5
Services	51.3	50.7	50.6	51.4	53.4
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	4.0	4.9	2.9	1.8	9.7
Industry	-2.6	3.5	4.8	4.4	4.1
Manufacturing	5.0	5.3	11.6	2.4	3.9
Services	-0.5	3.5	5.0	4.1	0.3
GDP	0.8	4.1	4.2	3.2	4.4



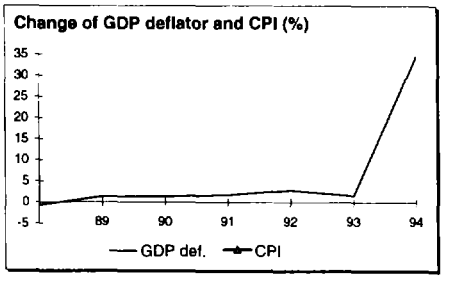
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	83.8	81.3	84.2	84.9	82.0
General government consumption	15.4	13.2	11.9	11.6	8.5
Gross domestic investment	8.9	14.2	13.8	14.3	19.6
Exports of goods and nfs	34.4	21.8	23.3	22.1	26.9
Imports of goods and nfs	42.5	30.5	33.2	32.9	37.1
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	0.0	3.3	1.7	3.6	0.3
General government consumption	-3.8	-1.2	-2.1	-0.8	1.0
Gross domestic investment	3.1	12.1	15.1	13.2	19.8
Exports of goods and nfs	-8.7	1.9	12.9	-2.2	-11.7
Imports of goods and nfs	-8.9	2.0	4.4	3.1	-11.7
Gross national product	0.7	3.9	2.9	4.3	3.4
Gross national income	-0.1	3.8	0.6	4.4	4.8



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	..	..	..	..	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	-4.9	1.4	2.9	1.6	34.5
Government finance					
(% of GDP)					
Current budget balance	-4.7	-4.1	-2.1	-0.2	-1.6
Overall surplus/deficit	..	-10.5	-9.0	-3.1	-5.4



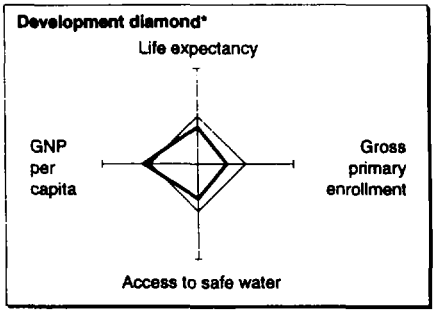
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Benin

POVERTY and SOCIAL

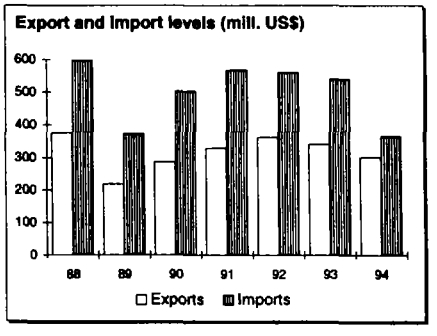
	1985-90	1990-94
(annual growth rates)		
Population	3.0	3.1
Labor force	2.2	2.5

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	47.8
Infant mortality *(per 1,000 live births)*	84.6
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	50.3
Energy consumption per capita *(kg oil equivalent)*	20.4
Illiteracy *(% of population age 15+)*	76.6
Gross primary enrollment *(% of school-age population)*	66.0



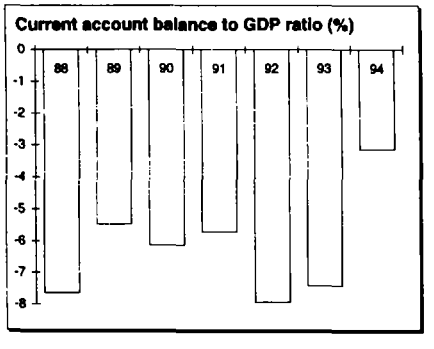
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	298	287	362	341	301
Fuel	66	73	95	73	121
Cotton	42	7	9	9	18
Manufactures	..	..	..	..	..
Total imports (cif)	384	503	561	540	366
Food	126	78	..	..	..
Fuel and energy	61	54	..	..	..
Capital goods	72	157	..	..	..
Export price index *(1987=100)*	89	79	109	101	93
Import price index *(1987=100)*	97	97	123	118	106
Terms of trade *(1987=100)*	92	81	89	85	87
Openness of economy *(trade/GDP,%)*	77	52	56	55	64



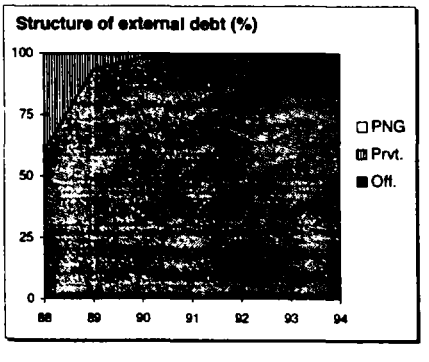
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	360	402	514	479	405
Imports of goods and nfs	444	563	719	691	477
Resource balance	-85	-161	-205	-212	-72
Net factor income	-21	-39	-62	-40	-41
Net current transfers	62	86	95	94	65
Current account balance					
Before official transfers	-44	-114	-172	-158	-48
After official transfers	-15	-56	-40	-14	36
Long-term capital inflow	32	88	48	47	146
Total other items (net)	-31	26	84	3	-67
Changes in net reserves	14	-58	-91	-36	-115
Memo:					
Reserves excluding gold *(mill. US$)*	4	65	245	244	..
Reserves including gold *(mill. US$)*	8	69	249	248	..
Conversion rate *(local/US$)*	449.3	272.3	264.7	283.2	555.2



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	164.7	231.6	211.1	242.9	365.4
IMF credit/exports	2.8	3.6	3.4	7.4	10.6
Short-term debt/exports	35.7	10.0	4.4	6.0	5.2
Total debt service/exports	12.2	7.7	4.1	5.8	18.0
GDP ratios					
Long-term debt/GDP	63.3	62.7	61.0	66.3	97.2
IMF credit/GDP	1.1	1.0	1.0	2.0	2.8
Short-term debt/GDP	13.7	2.7	1.3	1.6	1.4
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	47.8	2.0	0.4	0.3	0.0
Official creditors/long-term	52.2	98.0	99.6	99.7	100.0



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Burkina Faso

Burkina Faso is a resource-poor landlocked country in a transitional zone between the Sudano-Guinean regions and the Sahel. Although fragile, soils are comparatively fertile. The majority of Burkina's population of roughly 10 million (nearly 90 percent rural) depends mainly on agriculture, both crops and livestock. Annual population growth of almost 3 percent is creating severe pressure on arable land. Social indicators, such as primary school enrollment, access to health services, and life expectancy, are among the lowest in the world. Per capita GNP is estimated at $300 in 1993.

Burkina's economic performance has been limited by several serious constraints: high population growth and related environmental and socioeconomic problems, its dependence on rainfed agriculture and hence vulnerability to drought, an inadequate and fragmented economic infrastructure, and what was until four years ago a highly regulated and distortionary economic environment discouraging private investment and exports.

Most of the labor force is occupied in the primary sector, which accounts for about 40 percent of GDP. The service sector has expanded to provide about 37 percent of GDP. In the secondary sector, the contribution of mining to GDP is relatively small, but increasing rapidly with the expansion of gold mining, after cotton now the country's second biggest source of export earnings. Other mining activities, such as zinc, also have potential. Informal activities permeate Burkina's economy in all sectors.

Until recent reforms, cumbersome regulations, a restrictive trade regime, price controls, and widespread government involvement in productive sectors discouraged private investment. These factors impeded the development of the domestic banking sector and private enterprises in all formal sectors of the economy. Without the dynamism of the informal sector, the size and importance of which is inadequately estimated, economic growth would no doubt have been much slower in Burkina.

In 1991 Burkina Faso launched, with the support of donors, an adjustment program relying on internal adjustment policies and structural reforms aimed at building the foundation for sustained economic and social development. However, the external competitiveness of Burkina's production remained low. Despite the January 1994 devaluation of the CFA franc, further direct cost-reduction measures are needed if domestic producers are to contribute to a reduction of the sizable external trade deficit.

Regional market development and economic integration are of great importance for Burkina's economy. Roughly one-fourth of Burkina's recorded external trade is intraregional, the highest proportion among Sahelian countries. In addition, worker's remittances received from Burkinabè working abroad, mostly in Côte d'Ivoire, account for $150 million annually, equivalent to 5 percent of GDP.

Recent Political Developments

Burkina's present political environment may prove to have a very positive effect on development if the pragmatic, less ideological approach to economic management continues. Burkina has undergone a major political transformation in the recent past. Since October 1987 the authorities have followed a process of "rectification" of the previous regime's revolutionary socialist ideas. This move toward greater political openness and democratization of power has continued and is embodied in the new constitution. Multiparty legislative elections took place in May 1992, and the new parliament started work in October 1992. These political developments are coupled with a more pragmatic and liberal approach to economic management.

Recent Economic Performance

In spite of the handicaps constraining its economic performance, Burkina Faso recorded in the 1980s a growth rate that was sufficient to raise per capita incomes and consumption slightly, as real GDP grew by 3.5 percent a year between 1980 and 1993. Year-to-year variations in growth are large and depend mostly on the weather and related crop and livestock production developments.

Until 1988 the economy enjoyed relatively good growth. Much of the growth was, however, derived from two unsustainable sources: an expansion of public con-

sumption and investment spending, and high agricultural growth due in part to bringing of new land, recently freed of onchocerciasis — river blindness — under cultivation. In contrast to a rapid growth of construction and an expansion of transport and other services, driven largely by the good performance of agriculture, manufacturing stagnated during the 1980s even though highly protected by import controls. The reasons were several. Structural factors such as poor technical skills, high energy and transport costs, high wages and worker benefits, and rigid price and trade controls hurt competitiveness. The policy framework was complex and sometimes contradictory, and special tax exemptions and protective measures deterred efficiency gains.

In 1989 and 1990 real GDP growth slowed to 1.7 percent on average, largely reflecting a fall in agricultural output due to a recurrence of poor rainfall and a curtailment of public investment. Because 1991 was a good agricultural year and the private sector started to respond to reforms in the incentive framework, the expansion of GDP, in real terms, reached 6.0 percent, despite a further reduction in the growth of public spending. By contrast, economic developments in 1992 and 1993 were on the whole disappointing, as low world prices combined with uneven rainfall slowed the growth of domestic output and incomes, worsened the public finance situation, and weakened the external position. According to preliminary estimates, 1994 GDP growth was only about 1 percent, as excessive rainfall caused a decline in agricultural output.

The government's cumulative overall budget deficits averaged almost 9.2 percent of GDP over 1986-90 (excluding grants). Because of administrative inefficiencies and the stagnation of the formal sector, tax revenue performance was disappointing and Burkina fell into arrears on its domestic and external debt service obligations as necessary measures on the expenditure side were not taken. At the end of 1990 external and domestic arrears were approximately equivalent to one year's fiscal revenue. With the adoption of the comprehensive adjustment program in 1991, including measures to contain the wage bill and improve revenue performance, the government was initially able to clear the programmed amount of its arrears. The accumulation of external and domestic payments arrears resumed in 1992 and accelerated in 1993, as a result of slippages in fiscal revenue. Inflation has traditionally been moderate, averaging 3.2 percent per year over 1980-93. A jump in consumer prices was to be expected following the CFA franc devaluation, but restrictive policies appear to have limited inflation to about 25 percent in 1994.

The structure of current public expenditures has also been a subject of concern. Because of the rehiring of civil servants laid off under the previous administration, the wage bill had been increasing too fast, crowding out investment and operating expenditures. The amounts allocated for maintenance of basic infrastructure were minimal. Expenditures for basic health services and primary education were inadequate, while health service coverage and primary school enrollment rates remain well below the average for similarly poor countries. Recurrent expenditures of economic or social importance were being financed by external grants or simply being eliminated. Measures to reverse trends in these areas were an integral part of the program launched in 1991, and they were fully implemented. Defense outlays, which were higher than operating expenditures for education and health combined in the mid-1980s, were cut and the savings shifted to higher allocations for materials and supplies in the priority ministries and for the recruitment of 950 primary school instructors.

Burkina's external accounts developed relatively favorably during the 1980s, thanks to rising cotton and gold export revenues. The current account deficit (excluding official transfers) improved compared with performance over 1977-82. Net capital inflows sufficed not only to cover the current account deficits over 1982-88, but also to build up gross official reserves to the equivalent of about 5.4 months of imports of goods and services at end-1988. In 1989, however, Burkina's balance-of-payments position weakened dramatically because of a deterioration in the trade balance, a larger deficit in the service account, and lower net private transfers. While the external trade balance improved in 1990 and 1991, it deteriorated in 1992 and 1993, owing to a large extent to a reduction in the volume and international price for cotton exports. Initial indications are that this trend was reversed in 1994.

Burkina's external position is still relatively comfortable, although it weakened somewhat in recent years as the impact of the slow improvement in competitiveness was offset by adverse external shocks, notably the decline in world market cotton prices, a slow recovery of gold exports, delay in developing a promising zinc deposit, and a sharp drop in worker remittances from Côte d'Ivoire. In 1991 Burkina Faso adopted a macroeconomic policy framework and a structural adjustment program supported by IDA and the IMF. The corrective measures implemented under the program, which focused on internal adjustment policies, contributed to a narrowing of the overall fiscal deficit and to the containment of the current account deficit.

While the government successfully contained growth of the wage bill, by mid-1993 a significant deterioration in public finance performance was becoming increasingly apparent. Tax revenues were far short of targets, principally because of weaknesses in customs administration, which was confronted also with growing fraud. The cotton sector deficit, resulting from a decline in

world market prices, put a large claim on the government's budget. The government also failed to take several revenue-enhancing measures expected in early 1993, including variable import levies on rice and sugar, and a temporary tariff surcharge to substitute for removed quantitative import restrictions until October 1993.

In January 1994 Burkina Faso joined the other countries of the CFA zone in devaluing the CFA franc 50 percent against the French franc, and adopted an updated medium-term structural adjustment program and an economic and social program aimed mitigating the adverse social impact of the devaluation while containing aggregate demand, deepening ongoing structural and sectoral reforms to improve competitiveness conducive to private-sector growth, and strengthening the delivery of social services. Developments since the devaluation are broadly satisfactory. Inflation appears to have remained below the initial target of 30 percent for 1994, and the government has lifted the price controls that had been reimposed after the devaluation. There is also strong evidence of a rebound in exports, notably exports of livestock and agricultural products, as well as a pickup in activity in import substitution sectors, such as textile, soap, and bicycles.

The planning of public sector investments has been a continual problem in Burkina but has improved since 1990. Its public investment program for 1993-95 is free of highly visible large-scale projects that have not been seriously analyzed as to their economic merits, budgetary implications, or the country's capacity to implement them. While the government has in the past given priority to transport sector investments of limited economic value — to the detriment of maintenance and rehabilitation of existing infrastructure — it is now seeking a balance between new investment and maintenance expenditures. Rehabilitating economic and social infrastructure is another priority, and new initiatives will focus on high-return investments, land management, and the development of Burkina's human resources.

The Burkinabè people have long been known for their entrepreneurial skill and diligence, and Burkinabè migrants have made a substantial contribution to the economies of neighboring coastal countries. To stimulate formal private sector production, trade, and investment, Burkina is reducing government intervention and regulations. Price controls have been lifted, labor regulations made more flexible, the fiscal system rationalized, and the investment code updated. Policies that contain wage and price inflation and enhance competitiveness are being pursued in light of the relatively high costs of domestic production. Since 1990, the government has taken steps to loosen its tight regulatory framework by eliminating export taxes, liberalizing prices, reducing import restrictions, and allowing increased internal competition.

Population and Environment

Burkina's high population growth of almost 3 percent a year contributes to a variety of ecological and social development problems. Cultivable land, plant cover, and water resources are overexploited in populous areas, leading to rapid soil degradation, erosion, and further desertification. Emigration to neighboring coastal countries has become increasingly less attractive in recent years because of persistent economic and financial problems in the traditional host countries. Available public finances cannot keep up with the costs of basic education and the provision of health care and other basic services for the rapidly increasing population.

The government is committed to increased family planning services and will allocate more resources for these programs and better integrate them into the existing health service delivery system. The government has initiated a public information program to address the spread of sexually transmitted diseases, such as HIV. Increased awareness of environmental degradation has led to the formulation of a program to extend simple technologies that aid soil, water, and biomass conservation. A portion of the resources needed for primary education will be made available by continuing reductions of still-high expenditures on secondary and university-level stipends and reductions in nondevelopment expenditure.

Poverty and Social Indicators

Burkina's social indicators and population growth mirror the widespread poverty. The crude death rate (18 per 1,000), infant mortality rate (132 per 1,000), and combined child-infant mortality rate (195 per 1,000) are among the highest in the world. Primary school enrollment has only recently reached 31 percent. Adult literacy was estimated at about 18 percent in 1991, while life expectancy at birth is estimated at 48 years. Agriculture remains little diversified and subject to climatic vagaries. High rural-to-urban migration, combined with still-inadequate social services, and government policies, which in the past constrained opportunities for private sector activity, have also contributed to poverty in urban areas. A poverty assessment is being prepared by the government, and the results will form the basis of a strategy and program to alleviate poverty more effectively. At the same time, vulnerable groups are expected to benefit from the adjustment process, which is promoting private-sector growth and more effective, broad-based social services through more efficient public spending.

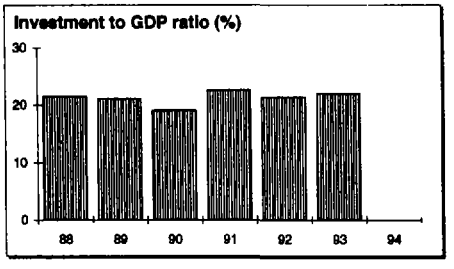
Burkina Faso

Population mid-1993 *(millions)* **9.8**
GNP per capita 1993 *(US$)* **300**

Income group: **Low**
Indebtedness level: **Less Indebted**

KEY RATIOS

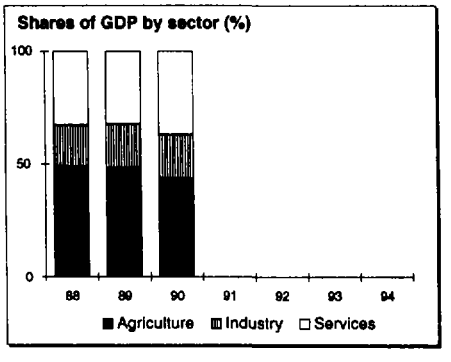
	1985	1990	1992	1993	1994
Gross domestic investment/GDP	24.2	19.1	21.4	22.1	..
Exports of goods and nfs/GDP	13.1	13.5	11.9	11.9	..
Gross domestic savings/GDP	-2.0	3.3	2.9	2.2	..
Gross national savings/GDP	9.1	7.0	6.9	6.1	..
Current account balance/GDP	-15.1	-12.2	-14.6	-16.0	..
Interest payments/GDP	0.8	0.4	0.5	0.6	..
Total debt/GDP	41.2	32.3	35.6	40.7	..
Total debt/exports	171.3	156.7	202.0	234.8	..



GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	44.4	43.5	..	..	..
Industry	17.4	19.6	..	..	..
Manufacturing	12.0	13.2	..	..	..
Services	38.1	36.8	..	..	..

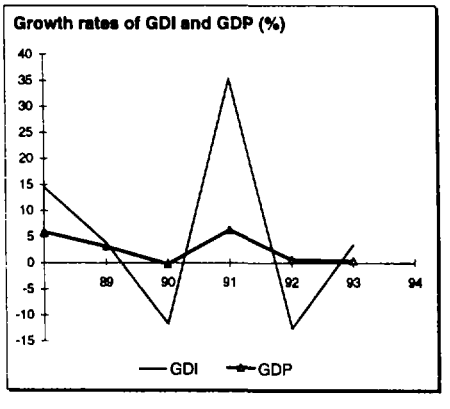
	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Agriculture	2.1	*2.5*	-3.7	0.0	..
Industry	4.4	*3.0*	6.7	1.3	..
Manufacturing	4.4	*4.0*	6.8	1.0	..
Services	4.4	*1.6*	2.4	1.5	..
GDP	3.3	*2.2*	0.6	0.4	..



GDP: EXPENDITURE

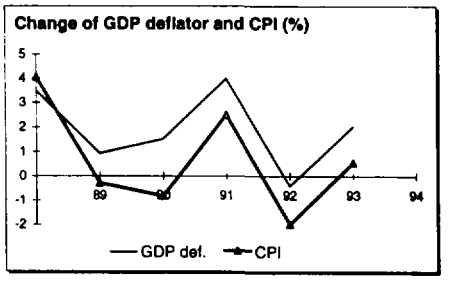
	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	86.6	79.0	80.2	80.7	..
General government consumption	15.5	17.7	16.9	17.1	..
Gross domestic investment	24.2	19.1	21.4	22.1	..
Exports of goods and nfs	13.1	13.5	11.9	11.9	..
Imports of goods and nfs	39.3	29.3	30.4	31.8	..

	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Private consumption	3.9	*1.5*	3.4	-1.8	..
General government consumption	3.2	*5.1*	7.8	1.6	..
Gross domestic investment	-1.4	*4.9*	-12.5	3.5	..
Exports of goods and nfs	5.9	*0.2*	0.3	3.8	..
Imports of goods and nfs	2.8	*2.6*	1.4	-1.2	..
Gross national product	3.2	1.5	0.5	0.3	0.5
Gross national income	3.6	*1.5*	0.3	-0.8	..



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	6.9	-0.8	-2.0	0.6	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	4.8	1.5	-0.4	2.0	..
Government finance					
(% of GDP)					
Current budget balance	1.5	-1.8	-0.2	-2.2	..
Overall surplus/deficit	-6.0	-7.5	-7.1	-9.2	..

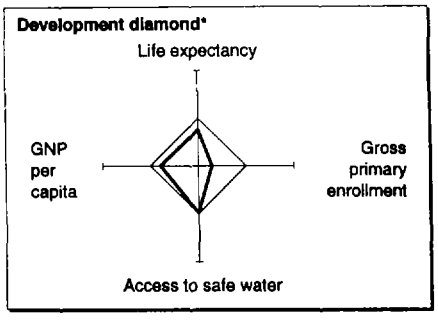


Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

POVERTY and SOCIAL

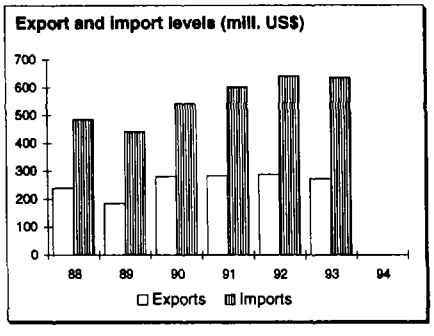
	1985-90	1990-94
(annual growth rates)		
Population	2.6	*2.8*
Labor force	2.0	2.1

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	47.2
Infant mortality *(per 1,000 live births)*	128.6
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	67.3
Energy consumption per capita *(kg oil equivalent)*	16.3
Illiteracy *(% of population age 15+)*	81.8
Gross primary enrollment *(% of school-age population)*	31.0



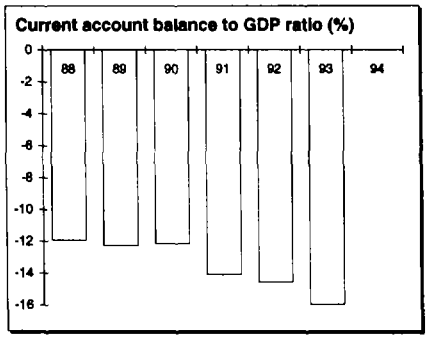
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	136	281	288	273	..
Cotton	30	97	94	64	..
Meat	14	35	33	32	..
Manufactures	..	..	..	..	..
Total imports (cif)	353	543	642	636	..
Food	59	90	87	86	..
Fuel and energy	32	83	42	37	..
Capital goods	106	105	241	240	..
Export price index *(1987=100)*	81	116	119	107	..
Import price index *(1987=100)*	90	107	115	116	..
Terms of trade *(1987=100)*	90	109	103	93	..
Openness of economy *(trade/GDP,%)*	52	43	42	44	..



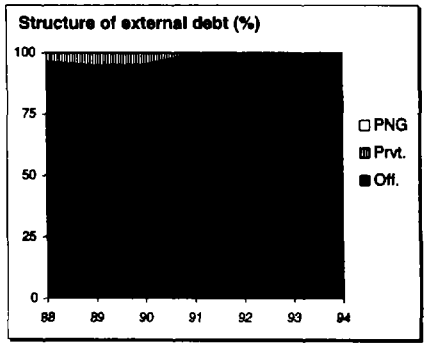
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	163	349	349	336	..
Imports of goods and nfs	488	757	894	896	..
Resource balance	-325	-408	-546	-560	..
Net factor income	-1	-12	-28	-30	..
Net current transfers	139	105	145	140	..
Current account balance					
Before official transfers	-187	-314	-429	-450	..
After official transfers	-60	-89	-97	-117	..
Long-term capital inflow	46	89	132	129	..
Total other items (net)	8	6	20	24	..
Changes in net reserves	6	-6	-55	-36	..
Memo:					
Reserves excluding gold *(mill. US$)*	140	300	341	382	..
Reserves including gold *(mill. US$)*	143	305	345	387	..
Conversion rate *(local/US$)*	449.3	272.3	264.7	283.2	348.3



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	152.9	140.9	190.2	224.3	..
IMF credit/exports	3.4	0.0	1.7	4.3	..
Short-term debt/exports	15.0	15.8	10.1	6.3	..
Total debt service/exports	9.9	6.4	6.3	7.1	..
GDP ratios					
Long-term debt/GDP	36.7	29.1	33.6	38.8	..
IMF credit/GDP	0.8	0.0	0.3	0.7	..
Short-term debt/GDP	3.6	3.3	1.8	1.1	..
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	7.8	5.1	0.5	0.4	0.2
Official creditors/long-term	92.2	94.9	99.5	99.6	99.8



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Burundi

Burundi is a landlocked country of 27,834 square kilometers in Central Africa. Bujumbura, the capital, is 2,100 kilometers from the nearest port, Kenya's Mombasa. GDP per capita was one of the lowest in the world at $180 in 1993. With a population of 5.8 million growing at 3.1 percent a year, there are 208 inhabitants per square kilometer, ten times the Sub-Saharan African average. Urbanization is only 6 percent compared with a 30 percent average for the region. Burundi has limited natural resources other than relatively fertile agricultural land and a climate that allows three growing seasons a year. Mineral resources include cassiterite, nickel, phosphate, vanadium, and some alluvial gold. An exploration agreement for nickel sulfites was concluded in 1993.

Agriculture contributes about half of GDP, 90 percent of employment, and over 80 percent of export earnings. The most important export crop in this largely subsistence sector is coffee, which accounted 70 percent of merchandise exports over 1990-94. Burundi was traditionally self-sufficient in food, but food production has not kept pace with population growth and declining soil fertility. The average smallholder farm size has declined to 0.7 hectares. In 1994, following the displacement of 800,000 people, mostly farmers, in the aftermath of the political crisis and ethnic violence that erupted in October 1993, Burundi had a food deficit of about 250,000 metric tons and needed substantial food aid.

The secondary sector accounted for only 18 percent of GDP and 10 percent of exports in 1994. Despite growth averaging 5 percent since 1985, the modern sector has been unable to absorb excess rural labor. The private sector contributed only 16 percent of gross fixed investment over the last 15 years, mainly in smallholder farming and transport. The public sector dominates manufacturing, energy, infrastructure, the financial sector, and other modern-sector activities, and contributes over half of formal employment of 40,000. Some 80 percent of investment is externally financed.

Recent Political Developments

Burundi held its first democratic elections in June-July 1993, with the party representing the Hutu majority winning the presidency and a majority in the National Assembly. An attempted army coup that October resulted in the assassination of the president, the president of the National Assembly, and other top officials. Although the coup faltered in the face of international opprobrium, it destabilized Burundi's political situation and rekindled ethnic strife. An attempt to restore political legitimacy with the election by the National Assembly of a new president in February 1994 ended soon after with his death in April 1994 in an airplane crash that also took the life of his Rwandan counterpart.

New power-sharing arrangements in September 1994 curtailed the powers of the president and the National Assembly, and granted the opposition and the prime minister representing it additional powers and 45 percent of all important public appointments. The agreement paved the way for the inauguration of a new president last October and the appointment of a new government. Infighting within the opposition party led to a change of government in February 1995. Political instability has weakened the country's institutions, including public administration and project management.

The Experience with Adjustment

Burundi has pursued an adjustment program supported by IDA and the IMF since 1986, and has made significant progress in exchange, price, and trade liberalization, and fiscal management. The government implemented important regulatory reforms, including a new labor code, banking law, and central bank statutes, and is preparing a new tax code and commercial law; it promoted exports through a free trade zone created in 1992, a duty drawback scheme, transport subsidies for exporters, and the legalization of foreign exchange accounts for exporters. Burundi has taken steps to reverse the appreciation of the real effective exchange rate, which depreciated by 44 percent between 1986 and 1992; during the same period fiscal revenue increased slightly in proportion to GDP, and Burundi consistently recorded a primary fiscal surplus, no mean feat in Sub-Saharan Africa.

Despite this progress on the policy front, supply response has lagged. Growth, although positive and

above the regional average, slowed; private investment barely increased; and exports neither increased nor diversified. The structure of Burundi's economy has remained largely unchanged, with a dominant subsistence sector, little diversification, low savings, low private investment, an overdimensioned public sector, and high aid dependency. During the 1986-92 period, GDP per capita grew an average of only 0.9 percent compared with 2 percent over 1980-85, private investment as a ratio to GDP remained under 4 percent, and export volume grew by less than 2 percent, compared with a 9 percent average over 1980-85. Over the adjustment period, the public deficit and the current account balance did not significantly improve, and were equivalent to 6 percent and 9 percent of GDP, respectively (including grants).

The poor supply response is mainly due to the often late and partial implementation of the reform agenda and, since 1993, disruptions associated with political transition and ethnic strife. Many of the reforms — such as the liberalization of the current account and the partial liberalization of the capital account — were implemented late in the program. Others — such as freeing up agricultural producer prices, or prices and tariffs in sectors dominated by public enterprises — were legislated but not implemented.

Reform faltered because the government was unable to reduce the state role in the economy, redirect public resources to support development, and improve the efficiency, transparency and accountability of public-sector management. Excessive nondevelopmental expenditure for the military, general administration, and subsidies to inefficient parastatals crowded out spending for human resource development and maintenance and operation of essential infrastructure. The state did not divest, and the government failed to strengthen management of public services or improve the efficiency of public investment.

Poverty and Social Indicators

Poverty is widespread in Burundi and has been rising with economic disruption of rural society and agricultural production due to ethnic strife. About 14 percent of the population is displaced, dispersed, or in refugee camps. A June 1994 household consumption survey showed the proportion of population below the poverty threshold (including the 800,000 displaced people) has increased since 1990 from 36 to 57 percent in rural areas, and from 42 to 59 percent in urban areas. The most vulnerable households are likely to be led by single women or illiterate persons, have average family sizes of over six, and no off-farm income. The poor have high rates of childhood malnutrition, low rates of primary school enrollment, substandard housing, and unsafe drinking water, and rely on scarce wood for energy.

Burundi's human resources are being rapidly eroded by the ethnic and political crisis, and the resulting economic morass. Social indicators, historically comparable with regional averages, have deteriorated since 1993. Preliminary estimates indicate a decline in immunization rates from 81 to 60 percent, and in primary school enrollment from 70 to 52 percent. The incidence of acute childhood malnutrition doubled, from 6 to 12 percent. Official statistics indicate that 15 to 20 percent of the urban population and 1 to 2 percent of the rural population tests HIV positive; the spread of AIDS is likely to accelerate with the concentration of large numbers of refugees in camps.

Donors, through large-scale humanitarian assistance, which totaled $85 million in 1994, have attempted to arrest this deterioration. The decline in social standards will require, however, several years to reverse, even if social peace is restored.

Recent Economic Developments

Burundi's already disappointing economic performance weakened markedly over 1993-94 because of the unstable political situation and ethnic strife. Virtually all activities declined except for coffee and government services — the former because of favorable weather and higher export prices, the latter because of cover increased military and security outlays. Food production declined by 22 percent; mining, energy, and manufacturing by 25 percent; and trade by 18 percent. Government consumption increased sharply as a proportion of GDP, averaging 12.7 percent over the two years, compared with less than 10.5 percent in previous years. The investment-GDP ratio declined to 9.5 percent in 1994, per capita consumption fell markedly, and savings remained a negative 4 percent of GDP. Burundi resorted to food aid in 1994 equal to about 10 percent of its 1992 production to meet the needs of 218,000 Rwandan refugees and 460,000 internally displaced people.

Burundi's financial situation also deteriorated significantly over 1993-94, although it generally met its external obligations — external arrears of $3.3 million were reportedly settled in January 1995 — and took strong measures to limit fiscal slippage. The overall fiscal deficit, before grants, increased from 1 percent of GDP in 1992 to 3.8 percent in 1993 and 6.3 percent in 1994. Most of this increase was due to additional military and security outlays, and included recourse to "extrabudgetary" expenditures to escape normal budgetary circuits. The fiscal deficit was financed by accumulating payment arrears, mostly to parstatals, and, for the first time in many years, recourse to monetary financing. Food shortages due to farmer displacement and security problems and a 34 percent increase in the money supply stemming from higher credit to the public sector and an

inability to sterilize increased coffee revenues pushed inflation to almost 15 percent, a ten-year record. The real exchange rate appreciated 7 percent in 1994, and the gap between the official and market rates widened to over 30 percent.

The external position showed an apparent improvement in the resource and current account balances over 1993-94. The trade deficit narrowed to less than 6 percent of GDP — from 9 to 10 percent in previous years — because of an 85 percent improvement in the terms of trade and a reduction in nonfood imports due to the economic slowdown and lower investment. This helped reduce the current account deficit, before grants, from 20 to under 14 percent of GDP. Despite capital inflows that fell sharply from $100 million in 1992 to an average of about $40 million over 1993-94 due to poor public investment execution, Burundi increased its net official reserves from four to six months of import coverage.

External debt increased to 118 percent of GDP in 1994, up from 104 percent in 1992; 85 percent of the debt was owed multilaterals. Debt service obligations averaged 33 percent of exports of goods and services over 1993-94.

Medium-Term Prospects

Burundi's long-term prospects for reducing poverty depend on its ability to accelerate growth. A strategy predicated on private-sector export-led initiatives, labor-intensive investment, and regional integration could bring growth from productivity improvements in traditional export crops (coffee, cotton, tea, tobacco), introduction of new export crops (flowers, fruits, vegetables, medicinal and ornamental plants), artisanal mining (cassiterite, gold, colombite-tantalite), light manufacturing, industrial mining (if the nickel exploration proves conclusive), and services for the subregion. Medium-term prospects will depend on the government's commitment and ability to restore political and social peace and resume reform, and on political progress in neighboring Rwanda.

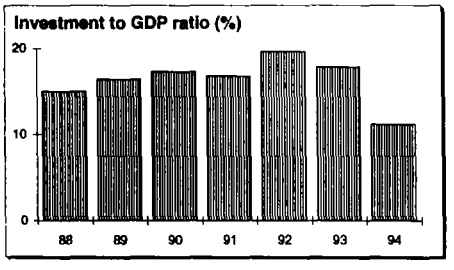
Burundi

Population mid-1993 *(millions)* **6.0**
GNP per capita 1993 *(US$)* **180**

Income group: **Low**
Indebtedness level: **Severely indebted**

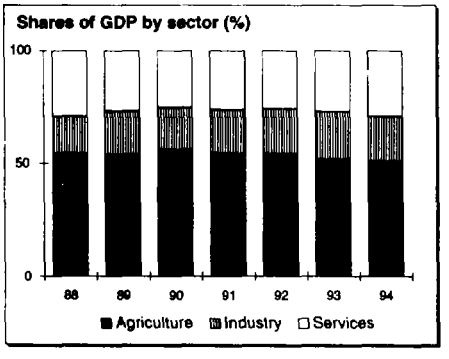
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	13.9	17.3	19.6	17.9	11.2
Exports of goods and nfs/GDP	10.8	7.9	8.9	9.4	15.3
Gross domestic savings/GDP	4.7	-2.6	-0.5	-2.8	-8.8
Gross national savings/GDP	3.9	-3.0	-0.6	-2.2	-8.6
Current account balance/GDP	-10.5	-20.3	-20.2	-20.0	-19.9
Interest payments/GDP	0.8	1.1	1.3	1.3	1.4
Total debt/GDP	39.6	80.2	94.1	112.1	124.1
Total debt/exports	354.5	932.6	924.4	1.059.4	737.7



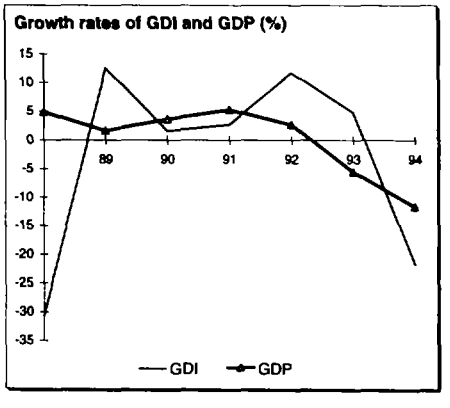
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	61.5	55.9	54.2	51.9	50.8
Industry	13.0	19.0	20.1	21.1	20.1
Manufacturing	8.1	8.8	9.4	..	..
Services	25.5	25.2	25.6	27.0	29.1
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	2.4	-4.6	3.0	-7.0	-17.5
Industry	3.2	-3.7	2.6	-4.9	-21.3
Manufacturing	-4.5	-7.5	7.8	-16.2	-25.0
Services	4.2	0.0	1.6	-2.1	-1.7
GDP	3.8	-2.4	2.7	-5.6	-11.6



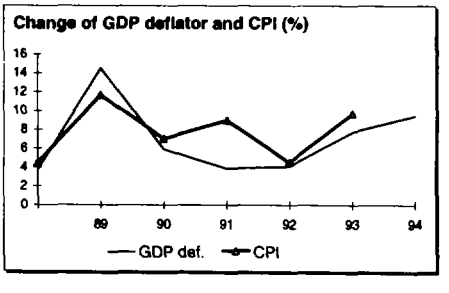
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	87.4	89.7	87.5	89.8	94.1
General government consumption	7.8	12.9	13.0	13.0	14.7
Gross domestic investment	13.9	17.3	19.6	17.9	11.2
Exports of goods and nfs	10.8	7.9	8.9	9.4	15.3
Imports of goods and nfs	20.0	27.8	29.0	30.1	35.3
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	3.6	1.6	1.1	2.6	-2.4
General government consumption	0.5	-0.6	13.1	-5.2	-12.8
Gross domestic investment	4.8	0.3	11.6	4.8	-21.7
Exports of goods and nfs	0.6	-3.9	1.1	-14.8	-11.9
Imports of goods and nfs	0.6	12.9	5.5	29.5	9.6
Gross national product	3.9	-2.3	2.8	-5.5	-11.7
Gross national income	2.6	0.1	2.1	-1.8	-5.3



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	3.8	7.0	4.5	9.7	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	5.2	5.9	4.1	7.7	9.5
Government finance					
(% of GDP)					
Current budget balance	6.1	8.1	10.8	9.1	3.9
Overall surplus/deficit	-6.6	-5.6	-5.6	-4.5	-3.4



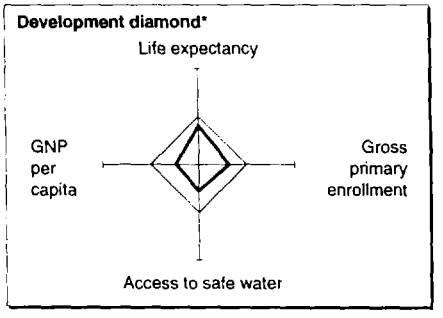
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Burundi

POVERTY and SOCIAL

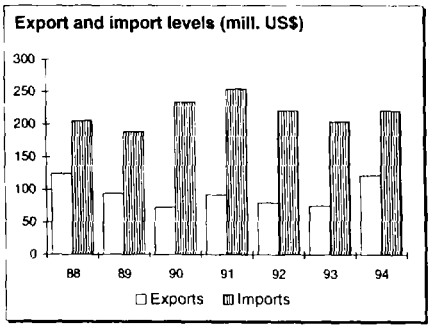
	1985-90	1990-94
(annual growth rates)		
Population	2.9	3.0
Labor force	2.3	2.4

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	50.3
Infant mortality *(per 1,000 live births)*	100.8
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	37.8
Energy consumption per capita *(kg oil equivalent)*	23.6
Illiteracy *(% of population age 15+)*	50.0
Gross primary enrollment *(% of school-age population)*	69.0



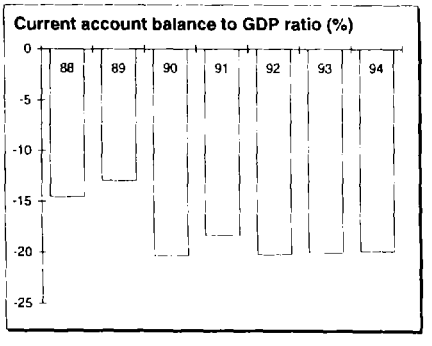
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	112	73	79	75	122
Coffee	94	52	49	47	91
Tea	6	8	11	11	13
Manufactures	6	4	11	9	5
Total imports (cif)	189	235	221	205	221
Food	17	12	11	19	50
Fuel and energy	32	30	26	24	20
Capital goods	63	80	78	57	42
Export price index *(1987=100)*	116	72	63	74	132
Import price index *(1987=100)*	87	108	98	91	96
Terms of trade *(1987=100)*	133	67	64	82	138
Openness of economy *(trade/GDP,%)*	31	36	38	39	51



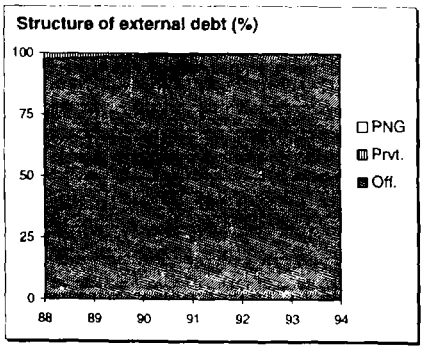
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	127	89	97	89	139
Imports of goods and nfs	239	315	315	285	321
Resource balance	-112	-225	-219	-196	-182
Net factor income	-18	-15	-14	-11	-11
Net current transfers	10	10	13	17	12
Current account balance					
Before official transfers	-121	-230	-220	-190	-181
After official transfers	-42	-67	-55	-26	-6
Long-term capital inflow	55	62	91	65	25
Total other items (net)	-1	-1	-11	-28	-13
Changes in net reserves	-13	6	-25	-10	-6
Memo:					
Reserves excluding gold *(mill. US$)*	29	105	174	163	205
Reserves including gold *(mill. US$)*	35	112	180	170	211
Conversion rate *(local/US$)*	120.7	171.3	208.3	242.8	245.0



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	318.6	875.0	856.2	996.2	680.2
IMF credit/exports	11.3	43.8	56.4	58.0	54.9
Short-term debt/exports	24.6	13.8	11.8	5.2	2.7
Total debt service/exports	20.5	43.6	35.9	36.0	29.4
GDP ratios					
Long-term debt/GDP	35.6	75.2	87.1	105.4	114.5
IMF credit/GDP	1.3	3.8	5.7	6.1	9.2
Short-term debt/GDP	2.7	1.2	1.2	0.5	0.5
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	6.6	1.1	0.4	0.3	0.1
Official creditors/long-term	93.4	98.9	99.6	99.7	99.9



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Cameroon

Cameroon is richly endowed with natural resources, a diversified production base, and well-developed infrastructure. This impressive development potential combined with appropriate policies and a favorable external environment produced real growth averaging 7 percent a year from independence in 1960 through 1985. Agriculture was the main source of growth and foreign exchange earnings until 1978, when oil production started and quickly became the cornerstone of economic growth. As in many oil-producing countries, however, the oil bonanza was not wisely invested. It led to higher expenditures on the civil service, subsidies to inefficient public enterprises, and low-return capital-intensive investments.

Three major shocks after 1986 exposed Cameroon's weaknesses in economic structure and policies. First, the external terms of trade declined by 60 percent through 1993 as the prices of coffee, cocoa, and oil fell sharply. Second, oil output began a long-term decline with the result that oil exports, at $531 million in 1994, were about one-third those in 1985. Third, the real exchange rate appreciated by about 54 percent over 1986-93, greatly reducing Cameroon's competitiveness. By 1993 the economy and its external accounts had deteriorated significantly. Continuous public finance deficits were generated as falling revenues were not matched by expenditure cuts. The burden on the public finances was exacerbated by a large and inefficient public enterprise sector. Growing public-sector deficits were internalized in the financial sector to the detriment of banks and the private sector. These deficits were largely financed by an accumulation of domestic arrears and foreign borrowings. Long-term external debt increased to more than 40 percent of GDP by 1989, while domestic debt accounted for 6 percent of GDP in fiscal 1987. Economic decline was accompanied by increased poverty as poor farmers suffered the brunt of the fall in producer prices and government cut health and education delivery systems. The middle class, which used to be one of the most developed in Sub-Saharan Africa, shrank.

In 1988 the government launched an economic reform program supported by the IMF and the World Bank designed to correct major problems across sectors. It included streamlining public finances, restructuring the public enterprise and banking sectors, and progressive export crop liberalization. Internal commerce was to be deregulated; petroleum sector incentives improved; forestry, health and, education policies reoriented; and special programs established to mitigate the cost of adjustment. The internal adjustment strategy failed, however, and little progress was made in structural reforms. The collapse in the terms of trade and the severe appreciation in the real exchange rate had adverse effects on incentives and income distribution and were not matched by corresponding policy adjustments: economic policy and management deteriorated after 1989, reflecting the lack of commitment of political leaders to economic reform and the corrosive effects of political instability fueled by the sharp decline in incomes.

Recent Political Developments

The economic crisis contributed to destabilizing an already fragile social situation. Cameroon's population is one of the most diverse in Africa, with some 200 ethnic groups with distinct languages, customs, and social structures. Cameroon is one of the few regional countries that suffered a protracted armed struggle at independence in 1960. It is also the only African country that started its independence with two parts, the larger one under French colonial rule and the smaller under British rule. During the first two decades following independence, ethnic and regional differences were contained by a strong one-party presidential regime. The outbreak of the economic crisis after 1986 was accompanied by calls for political liberalization leading to civil disobedience. The Anglophone west and Moslem north did not entirely accept the results of the allegedly fraudulent elections in 1992.

Government is increasingly sensitive to the accusations of the opposition and the free press, and pressure from major donors. In response to these pressures, and convinced that a major improvement in economic management would be an essential element in meeting internal and external criticism, the president in July 1994

appointed a strong new economic team under a powerful minister of finance.

Recent Economic Developments

In January 1994 Cameroon and the other countries in the CFA zone realigned the parity of the CFA franc from 50 to 100 CFAF to the French franc, and the government began implementing the Central African Customs Union trade and tariff reform. This reform introduced a four-rate common external tariff — 5, 10, 20, and 30 percent — and an intra-union preferential rate of 20 percent, while a two-rate turnover tax replaced a complicated system of turnover taxes. The government adopted a new macroeconomic program supported by the IMF and IDA designed to secure Cameroon's newly established international competitiveness. The program aims to bring inflation to a level below 5 percent after initial adjustments in relative prices over fiscal 1996, attain sustainable annual real GDP growth of about 5 percent primarily led by improved competitiveness and export performance, and quickly achieve primary and, eventually, overall budget surplus to enable increased domestic savings, reduce the current account deficit, and finance an increasing share of domestic investments.

Estimates for 1994 suggest that economic recovery is under way. Exports have surged 40 percent, helped by a 30 percent depreciation of the real exchange rate. Following a strong decline, imports started to pick up in December 1994. The IMF program was, however, less successful There was a serious shortfall in revenues in the first half of 1994, mainly in customs receipts, due to low imports, disruptions caused by the introduction of the tariff reform, and fraud. After a reorganization of the economic ministries and the appointment of a new minister of finance in July 1994, the budget situation improved, and in the third quarter of 1994, the primary surplus rose to CFAF 21 billion against a target of CFAF 12 billion. Similarly the overall budget deficit amounted to CFAF 12 billion versus a target of CFAF 72 billion. While domestic taxation has shown steady improvement, customs duties were some 43 percent, or CFAF 12 billion, under target. Recently, government imposed special export taxes, which adversely affect incentives, and import surtaxes, which are inconsistent with the Central African Customs Union tariff reform. The main factor in budgetary performance was a large but unsustainable cut in expenditures for subsidies and transfers, capital expenditures, and external debt service, leading to an increase in arrears to Paris Club creditors.

Poverty and Social Indicators

Cameroon's social indicators still rank favorably compared with those of surrounding Sub-Saharan countries, although years of economic crises and a worsening fiscal situation have taken their toll on the social sectors. A 1983 survey showed that poor household per capita food consumption was four times less than that of other households. Since the mid-1980s structural poverty and land impoverishment have become critical problems. In the early 1980s poverty was overwhelmingly a rural phenomenon, but in the last few years there has been a marked increase in urban poverty. In 1983 about 40 percent of the population was below the poverty line. A fourth of the urban population is currently estimated to live below the poverty line, and the situation in rural areas, although less known, is not likely to be much better.

Unemployment is high among the urban population and is particularly acute among women and youth; a survey carried out in late 1993 estimates unemployment in Yaounde, the capital, at about 25 percent. In the rural areas, poverty and unemployment have been on the rise because of the decline in agriculture output. Although health indicators are slightly better than those of the lowest-income regional countries, malnutrition is recurrent among rural women and children, especially in the arid north. This problem, in addition to widespread adult female illiteracy and poor health care delivery, is reflected in the high rates of maternal (300 per 100,000 births) and infant (65 per 1000 live births) mortality. Moreover, AIDS has become a significant health risk. While school attendance levels increased in the 1980s, public resources allocated to education since 1990 have been inadequate and school attendance is declining. High fertility rates and population growth (estimated at 3 percent a year), and continued cuts in public expenditures will put further pressure on already scarce resources allocated to health and education and worsen conditions for the poor.

Medium-Term Prospects

Successful implementation of the government's economic reform program is expected to end the recession and return Cameroon to a path of sustainable growth. Real GDP growth is projected to average about 5 percent from fiscal 1996 onward primarily as a result of improved performance in the tradables sector — such as coffee, cocoa, agroprocessing industries, and light manufacturing — sustained by increased private investment as confidence is reestablished. Gross domestic investment is expected to increase from 15.5 percent in 1994 to 23 percent in fiscal 1999. Private investment is expected to rise from 12.8 percent of GDP in 1993 to about 16 or 17 percent in fiscal 1997. Investment will have to be financed primarily by domestic savings, which will need to increase from 14.9 percent of GDP

in fiscal 1993 to about 24 percent in fiscal 1997. Private savings will be stimulated by the recovery of economic growth and the improvement in the external trade position. Public savings are projected to turn around from a negative level in fiscal 1993 to at least 8 to 9 percent of GDP, mainly as a result of improved revenue performance.

The principal objective of fiscal policy is to generate primary surpluses and public sector savings sufficient to cover an increasing share of the country's debt service obligations (including servicing domestic debt) and raise public investments. It is expected that the primary fiscal balance will be reversed from a deficit of 1.6 percent of GDP in fiscal 1993 to a surplus of almost 5 percent in fiscal 1997 by increasing nonoil tax revenues from 11.6 to about 13 percent of GDP. The main sources of improvement are the turnover tax introduced in 1994 (and, eventually, a value-added tax) and the further reduction of the wage bill.

External Debt

The expansionary policies of the 1980s led to a dramatic deterioration of Cameroon's credit standing as the government accumulated domestic and foreign debt, and was increasingly unable to meet its debt service obligations. Public-sector internal debt, including arrears, was about 45 percent of GDP in fiscal 1994. Most of the public-sector debt is attributable to the government and, to a lesser extent, a small number of public enterprises, mainly in the transport and the agriculture sectors.

Cameroon's external debt has also increased sharply since 1985. Long-term debt amounted to 83.8 percent of GDP in 1994, and the long-term debt service-to-export ratio climbed to 17 percent. With the large declines in exports and government revenues, Cameroon has experienced a sharp deterioration in its capacity to service external debt. Since 1991, actually paid debt service has amounted to less than 30 percent of debt service due.

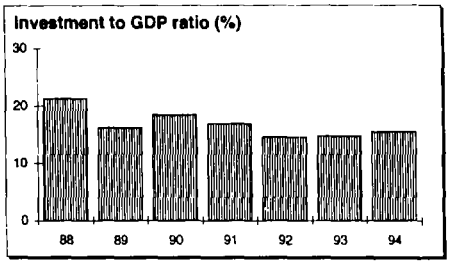
Cameroon

Population mid-1993 *(millions)* **12.5**
GNP per capita 1993 *(US$)* **820**

Income group: **Lower-middle**
Indebtedness level: **Severely indebted**

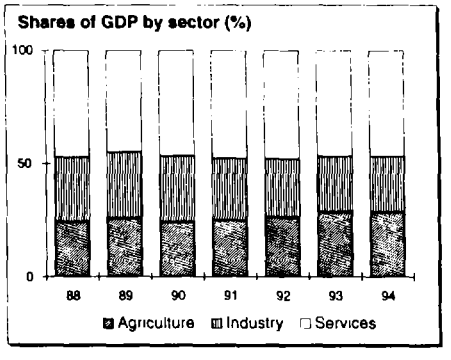
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	24.8	18.5	14.6	14.8	15.5
Exports of goods and nfs/GDP	32.7	20.6	20.9	19.4	27.8
Gross domestic savings/GDP	33.7	14.7	14.9	15.2	20.5
Gross national savings/GDP	26.9	10.8	10.6	9.0	12.4
Current account balance/GDP	3.9	-7.6	-3.9	-5.8	-3.3
Interest payments/GDP	1.6	1.4	1.3	1.3	2.0
Total debt/GDP	35.3	54.2	58.4	59.6	90.6
Total debt/exports	104.3	259.2	273.0	302.5	323.3



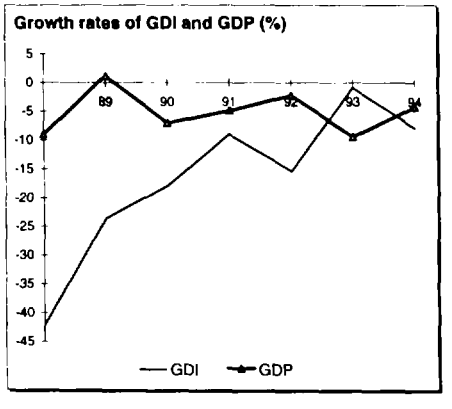
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	20.2	24.2	26.2	28.6	28.6
Industry	33.6	29.4	25.9	24.9	24.9
Manufacturing	10.8	13.6	12.4	11.3	11.3
Services	46.3	46.4	47.9	46.5	46.5
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	-0.4	-5.4	-2.3	-9.4	-4.3
Industry	-5.0	-5.4	-2.2	-9.6	-4.3
Manufacturing	10.4	-5.4	-2.2	-9.5	-4.3
Services	-3.4	-5.3	-2.2	-9.4	-4.3
GDP	-3.2	-5.4	-2.2	-9.5	-4.3



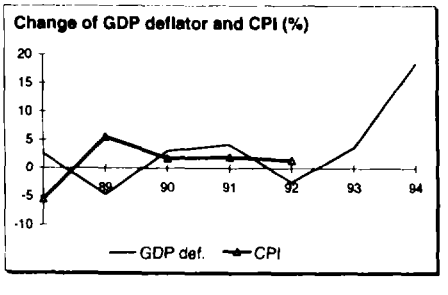
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	57.5	74.2	73.3	73.2	71.8
General government consumption	8.8	11.2	11.8	11.7	7.7
Gross domestic investment	24.8	18.5	14.6	14.8	15.5
Exports of goods and nfs	32.7	20.6	20.9	19.4	27.8
Imports of goods and nfs	23.8	24.4	20.6	19.0	22.8
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	-4.9	-5.2	2.3	-12.2	-1.3
General government consumption	6.3	-10.6	-13.0	-4.0	-32.0
Gross domestic investment	-13.5	-8.4	-15.4	-0.9	-7.9
Exports of goods and nfs	6.6	-1.8	4.5	-8.5	2.5
Imports of goods and nfs	-3.6	-4.4	7.1	-10.4	-4.8
Gross national product	-2.2	-5.9	-2.0	-10.3	-4.3
Gross national income	-6.0	-5.1	-3.0	-10.8	-1.7



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	11.5	1.7	1.4	..	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	14.6	3.0	-2.5	3.6	18.3
Government finance					
(% of GDP)					
Current budget balance	9.3	-1.9	-3.3	-3.9	-6.1
Overall surplus/deficit	-1.5	-7.7	-6.8	-6.8	-9.5

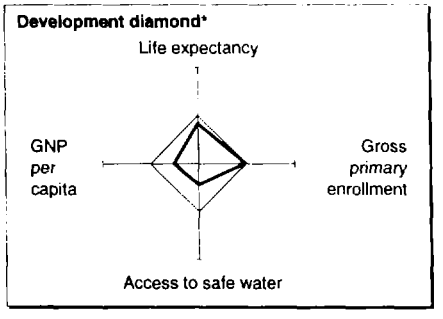


Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

POVERTY and SOCIAL

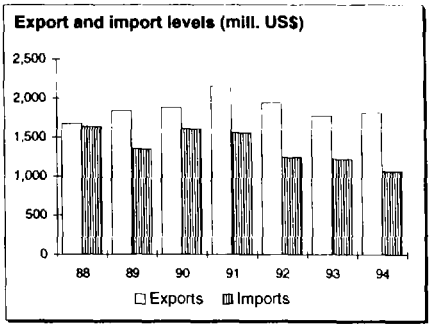
	1985-90	1990-94
(annual growth rates)		
Population	2.9	*2.8*
Labor force	2.0	2.2

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	56.5
Infant mortality *(per 1,000 live births)*	61.4
Child malnutrition *(% of children under 5)*	13.6
Access to safe water *(% of population)*	34.2
Energy consumption per capita *(kg oil equivalent)*	86.6
Illiteracy *(% of population age 15+)*	45.9
Gross primary enrollment *(% of school-age population)*	101.0



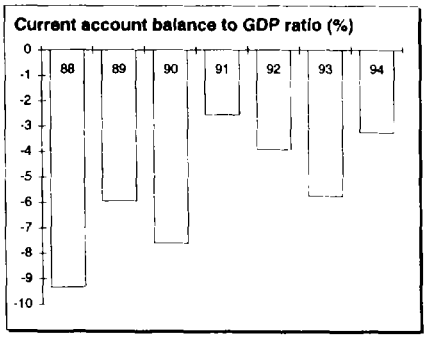
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	2,339	1,882	1,937	1,772	1,812
Fuel	1,535	824	868	779	531
Cocoa	226	156	132	115	177
Manufactures	198	325	241	227	207
Total imports (cif)	1,103	1,605	1,242	1,225	1,063
Food	92	134	104	102	89
Fuel and energy	8	16	8	8	7
Capital goods	382	289	208	233	190
Export price index *(1987=100)*	190	84	80	77	131
Import price index *(1987=100)*	115	112	112	107	163
Terms of trade *(1987=100)*	165	75	71	72	81
Openness of economy *(trade/GDP,%)*	57	45	42	38	51



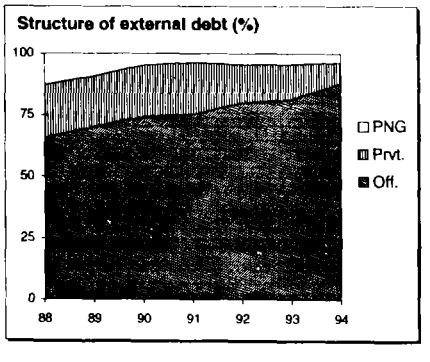
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	2,798	2,275	2,342	2,153	2,125
Imports of goods and nfs	1,898	2,690	2,307	2,108	1,745
Resource balance	900	-416	35	45	380
Net factor income	-539	-488	-652	-744	-659
Net current transfers	-33	64	178	62	29
Current account balance					
Before official transfers	328	-840	-439	-638	-249
After official transfers	328	-840	-437	-638	-237
Long-term capital inflow	-158	737	810	547	827
Total other items (net)	-132	36	-430	-128	-426
Changes in net reserves	-38	67	57	219	-164
Memo:					
Reserves excluding gold *(mill. US$)*	132	26	20	2	..
Reserves including gold *(mill. US$)*	142	37	30	14	..
Conversion rate *(local/US$)*	471.1	300.7	280.4	265.4	434.3



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	84.6	213.8	237.1	260.4	299.0
IMF credit/exports	1.0	5.2	2.6	0.7	2.0
Short-term debt/exports	18.7	40.2	33.3	41.4	22.3
Total debt service/exports	22.6	19.3	15.4	20.3	18.6
GDP ratios					
Long-term debt/GDP	28.7	44.7	50.7	51.3	83.8
IMF credit/GDP	0.3	1.1	0.6	0.1	0.5
Short-term debt/GDP	6.4	8.4	7.1	8.1	6.2
Long-term debt ratios					
Private nonguaranteed/long-term	16.0	4.7	4.5	4.3	3.7
Public and publicly guaranteed					
Private creditors/long-term	18.3	21.2	15.5	14.4	8.4
Official creditors/long-term	65.7	74.2	80.0	81.3	87.9



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Cape Verde

Cape Verde is a small archipelago of ten islands 650 kilometers off the coast of Senegal, with a land area of 4,036 square kilometers and an exclusive economic zone of 630,000 square kilometers. Nine islands are populated, and half of the population of less than 400,000 lives on the island of Santiago, mainly in Praia, the capital city. About one-tenth of Cape Verde's surface is arable, and prolonged cycles of drought aggravate a serious shortage of fresh water. Faced with austere living conditions and limited employment opportunities, Cape Verdeans have traditionally emigrated. Hence, twice as many Cape Verdeans live abroad as on the islands, and their close ties with the homeland are evidenced by significant worker remittances, which averaged about 12 percent of GDP between 1989 and 1992. The average annual population growth rate was 2.7 percent a year, or 1.5 percent adjusted for emigration, during the 1980s. GNP per capita was estimated at $920 in 1993.

Economic development is hindered by poor natural resources, the prolonged cycles of drought, and the small domestic market. The scattered nature of the islands gives rise to costly communications. After independence in 1975 the development of a virtually nonexistent economy into a modern one was a formidable challenge for the government, which chose to perform the role of entrepreneur in agriculture, industry, and services. Reliance on the private sector was not neglected. The economy performed well over 1980-88; real GDP growth averaged 6 percent a year. This growth stemmed predominantly from a high level of public investment in infrastructure and in the public-sector-dominated service industry. Until 1988, macroeconomic management was prudent; the overall balance of payments was in surplus, and a high level of external reserves was maintained (in 1988 it peaked at 9.4 months worth of imports). Monetary policy was cautious and resulted in moderate inflation.

Cape Verde's economy has traditionally been based on services. The service sector accounted for about 60 percent of GDP and employed about 41 percent of the active population in the 1980s. Construction and industrial production, consisting largely of light manufacturing, fish processing, and artisanal production, accounted for about 11.5 and 6.5 percent of GDP, respectively. The primary sector accounted for about 13 percent of GDP because of the low agricultural potential and inefficient exploitation of reasonably well endowed fishery resources. Agriculture employs about 24 percent of the active population.

Foreign trade is characterized by modest merchandise export earnings, a high share of services in total exports, and high merchandise imports. The merchandise export base is insignificant both in value and in diversity of exportables. Export earnings come predominantly from fish and bananas. Nontraditional merchandise exports are of marginal importance. Traditionally, Cape Verde's most substantial export earnings come from nonfactor services rendered to international maritime transport, and more recently from international air traffic services. The economy is highly dependent on imports of food (predominantly financed by food aid), capital, and intermediary goods.

Social Indicators

Compared with those of other countries in Sub-Saharan Africa, social indicators in Cape Verde are impressive. The available social indicators for 1992 show universal primary school enrollment, an adult illiteracy rate of 52 percent, a fertility rate of 6.4 per 1,000, infant mortality of 40 per 1,000, and life expectancy of 68 years. These achievements are a result of concerted efforts by national associations of women, youth and farmers, NGOs, and donors, and allocation of substantial public resources to social services. Good results notwithstanding, some problems require further attention, in particular high natural population growth, not yet mitigated by broadly accepted family planning programs, a shortage of trained teachers and health workers, a lack of some school supplies, and less than adequate primary school curricula.

Recent Economic Developments

After a period of slow growth (1.7 percent on average in real terms) over 1989-91, real GDP has significantly improved since 1992. Real GDP growth rate was esti-

mated at about 4 percent in 1993 and 4.5 percent in 1994. Economic growth was derived mainly from higher public investment, while private investment remained modest. Inflation, which averaged 9.3 percent during fiscal 1991, dropped to 5.9 percent in fiscal 1993 and was expected to continue declining in 1994 and 1995. Liberalization of domestic prices and trade has been a key factor in keeping inflation under control. However, restoring internal and external balances has been delayed. Mobilization of domestic and external savings has been insufficient to support generally well-sequenced reform policies and sustain an enlarged public investment program without putting pressure on the banking system.

Expansionary public investment policy has led to slippages in the budget deficit and eroded the external position. Although the trend of deteriorating internal and external balances has not yet reached an alarming magnitude, the risk of further erosion remains high. The overall fiscal deficit widened to 9 percent and 12 percent of GDP in 1992 and 1993, respectively, compared with about 6 percent in 1991. Without an adequate increase in external financing and government savings to finance higher development expenditure, the government resorted to borrowing from the banking system.

In 1991 the authorities introduced measures to improve government revenue performance and curtail current expenditure. Efforts were made in 1992 to broaden the tax base, simplify the tax system, and streamline tax administration. As a result, government revenue, which stood at 14 percent of GDP in 1991, rose to 18.4 percent of GDP in 1993. The government is committed to continuing tax reforms and improvements in tax administration. Measures to control public expenditure concentrated initially on a freeze in wage rates. However, changes in civil service assignments and pay scales in 1993 made necessary a large increase in the wage bill, whose share in the total recurrent expenditure has increased to about 50 percent. The impact of this measure on the budget, however, is expected to be more than compensated for by the envisaged downsizing of the civil service. A general recruitment ban at the nonprofessional levels has been in effect since 1993. Improvements in procurement of goods and services are likely to contribute to further savings.

Credit to the government has been the most important factor in monetary growth since 1992. By contrast, credit to public enterprises dropped slightly in 1992 and 1993, reflecting both an improvement in the financial situation of a number of these enterprises and a more strict lending policy for others. Credit to the private sector grew in line with the rate of inflation, with the increasing share of housing credits.

The deterioration of the trade balance in recent years reflects, to a large extent, an increase in imports of investment and consumer goods. The resulting current account deficits are financed primarily by emigrant remittances and foreign aid. The overall external balance, which returned to a surplus of 0.7 percent of GDP in 1992, registered a deficit of 3.2 percent of GDP in 1993, primarily because of higher imports of capital goods and imports of foodstuffs in the wake of the 1994 drought. With the deterioration of the external position, gross official reserves fell to 4.7 months of imports in 1993.

Structural Reforms

The government has been pursuing in earnest policies aimed at opening its economy and greater reliance on the private sector. This shift in the strategy followed a period of declining economic performance and structural deficiencies, mainly the result of central planning and import substitution. Homegrown policy reforms are aimed at opening up the economy. The policy reforms are sound, adequately sequenced and on track.

Prices of consumer goods have been virtually fully liberalized. A large-scale liberalization of the trade system started in late 1991 and was pursued through 1993. The foreign exchange allocation system has been streamlined. Registered importers can get freely foreign exchange for some 97 percent of all customs items through the only commercial bank, Banco Comercial do Atlántico. The Cape Verde escudo has been pegged to a basket of currencies of its key trade partners and sources of emigrant remittances. The exchange rate of the escudo is determined daily on the basis of quotations for the dollar and other hard currencies in the currency basket. Some progress has been made in streamlining export and customs procedures.

Privatization and restructuring of the public enterprise sector have been one of the main thrusts of this reform. The main objective of the privatization and restructuring program is to promote the private sector as the main vehicle for economic development and to improve the financial performance of the remaining public enterprises. The thoroughness of the preparatory work, including a public awareness campaign, characterized by a highly participatory approach and lack of social unrest, should pay off soon. By 1996, some 26 public enterprises will be privatized, 8 will be liquidated, 5 restructured, and 6 will still need a strategy for restructuring.

To modernize and downsize, the government has initiated reforms aimed at improving the efficiency of the civil service, building local government capacity, strengthening economic management, modernizing the legal and judicial systems, and reducing delays in preparing and executing public investment projects through better procurement practices. The government has initiated civil service reform that includes early retirement and voluntary departure and retraining for retrenched

civil servants. The civil service comprises 11,000 people, of which 400 were scheduled for early retirement and 1,400 for voluntary departure over the period of the program. The government embarked upon financial sector reform in late 1993 by reorganizing the Bank of Cape Verde as an independent central bank and creating a new bank in charge of commercial and investment banking activities.

Human Resources and Poverty

Lack of employment opportunities, rapid population increase, and a lack of the essential skills have contributed to an unemployment over 25 percent. The pressure on the labor market continues to increase with about 3,000 entrants each year, high levels of unemployment and underemployment in rural areas, and immigration restrictions in Western Europe. On the demand side, employment opportunities and new investment are still generally low. In addition to policies aimed at promoting the investment climate, the government is seeking to address the unemployment issue through improvements in population and human resource development policies.

Although poverty is not prevalent, pockets of poverty persist. The underlying causes of poverty are difficult living conditions in rural and urban areas caused by the shortage of fresh water and limited employment opportunities. Opening the economy and private sector development will be the most effective way to reduce poverty in the long run. Cape Verde has a good record on poverty alleviation; it has expanded social safety nets, building on a tradition of solidarity and good social sector policies. Positive economic growth per capita in the 1980s, generally sound social programs; concerted action by local communities, NGOs, and donors in poverty alleviation programs; significant food aid; and private transfers have increased consumption levels. Targeting, efficiency concerns, and cost recovery are moving into the government's focus, and its poverty strategy was endorsed by the donor community at the September 1994 Round Table Meeting in Praia.

Regional integration and international cooperation require development of an adequate transport and telecommunications infrastructure, and reliable air and maritime transport systems The existing infrastructure needs rehabilitation and expansion to provide better access and quality services at lower cost, which, in turn, could induce and facilitate private sector investment in productive activities, especially for exports. Infrastructure requirements include ports, airports, and roads. The development of energy, water, and sewerage facilities along with adequate pricing policies in these subsectors are also crucial.

Medium-Term Prospects

Over 1995-97 economic growth is projected to average 5.5 percent a year in real terms. Growth is expected to come from higher public investment in infrastructure, modernization of telecommunications, and water supply and sewerage systems in urban areas. Private investment in light manufacturing, tourism fisheries, and housing is expected to increase, as will commerce and services to international air and maritime transport. In response to policy changes, improvements in the economic infrastructure and development of human resources, it is expected that the private sector will broaden and diversify the limited export base.

Cape Verde's external position in the medium term will continue to reflect a significant investment-savings gap given the current negative level of gross domestic savings. Although it is expected that domestic savings will increase, reliance on foreign savings will continue. Achieving external balance will depend on containing import demand through better public expenditure management, increasing service export earnings, and maintaining the high level of private transfers. Mobilizing development assistance for public investment in infrastructure and social services, attracting direct foreign investments in productive activities and services, and managing external debt prudently will also be important factors in maintaining growth.

External Debt

Development projects in Cape Verde have mostly been financed by development assistance, and the high share of grants in this assistance is expected to continue. The stock of external debt, which stood at about $148 million outstanding and disbursed, is projected to rise because of an expected increase in borrowing, though this has been and will mostly be on concessional terms. External debt service will rise above 10 percent of export earnings and private transfers because of still limited export earnings.

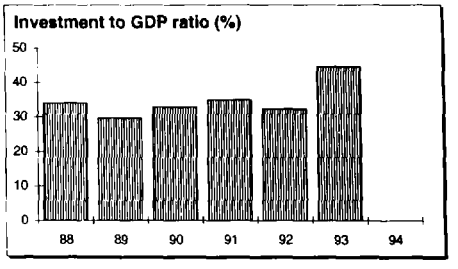
Cape Verde

Population mid-1993 *(thousands)* **370**
GNP per capita 1993 *(US$)* **920**

Income group: **Lower-middle**
Indebtedness level: **Less indebted**

KEY RATIOS

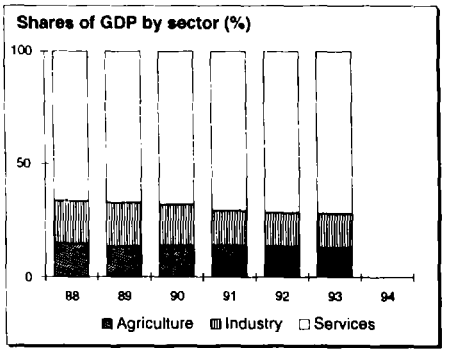
	1985	1990	1992	1993	1994
Gross domestic investment/GDP	54.2	32.8	32.2	44.6	..
Exports of goods and nfs/GDP	29.0	22.3	14.6	15.7	..
Gross domestic savings/GDP	-5.8	-2.2	-10.3	1.2	..
Gross national savings/GDP	11.2	17.8	11.9	22.9	..
Current account balance/GDP	-43.3	-14.0	-22.1	-20.7	..
Interest payments/GDP	2.4	0.8	0.9	0.5	0.9
Total debt/GDP	91.3	54.1	45.6	50.9	51.6
Total debt/exports	185.0	133.9	121.9	297.2	..



GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	11.6	13.7	13.4	12.9	..
Industry	17.3	18.5	15.0	15.3	..
Manufacturing	..	..	..	..	..
Services	71.1	67.9	71.5	71.9	..

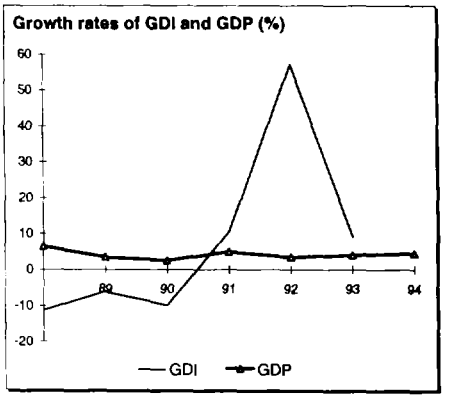
	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Agriculture	8.5	*-0.8*	-1.2	-2.4	..
Industry	5.5	*-2.4*	0.0	0.0	..
Manufacturing	..	..	..	..	..
Services	3.5	*6.4*	5.0	6.0	..
GDP	4.5	4.1	3.4	4.0	4.5



GDP: EXPENDITURE

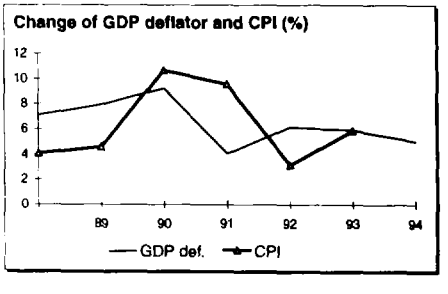
	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	96.9	86.3	95.7	80.3	..
General government consumption	9.0	15.9	14.6	18.5	..
Gross domestic investment	54.2	32.8	32.2	44.6	..
Exports of goods and nfs	29.0	22.3	14.6	15.7	..
Imports of goods and nfs	89.0	57.2	57.1	59.0	..

	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Private consumption	5.6	*-1.6*	-6.2	-1.3	..
General government consumption	-2.8	*7.8*	8.3	15.4	..
Gross domestic investment	-9.5	*26.7*	57.1	9.1	..
Exports of goods and nfs	0.5	*-8.4*	-15.4	18.2	..
Imports of goods and nfs	-5.0	*4.3*	10.0	6.8	..
Gross national product	4.0	6.7	14.3	2.5	4.5
Gross national income	3.9	*7.5*	13.8	1.5	..



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	5.4	10.7	3.1	5.8	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	4.2	9.2	6.1	5.9	5.0
Government finance					
(% of GDP)					
Current budget balance	-0.5	0.0	1.1	2.1	..
Overall surplus/deficit	..	..	..	..	..



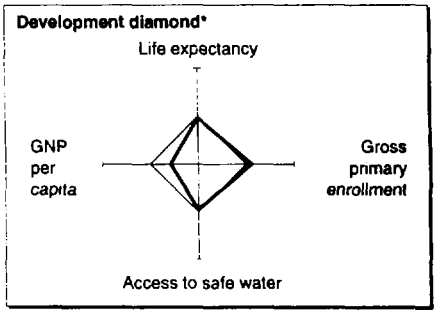
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Cape Verde

POVERTY and SOCIAL

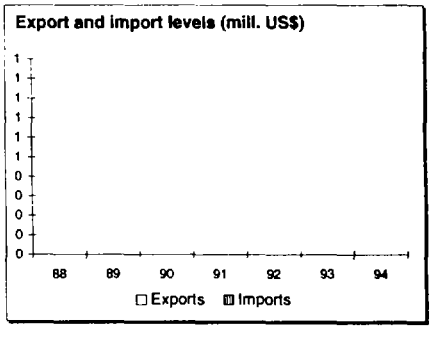
	1985-90	1990-94
(annual growth rates)		
Population	1.9	2.7
Labor force	3.0	2.7

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	64.9
Infant mortality *(per 1,000 live births)*	48.2
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	74.1
Energy consumption per capita *(kg oil equivalent)*	305.4
Illiteracy *(% of population age 15+)*	..
Gross primary enrollment *(% of school-age population)*	116.0



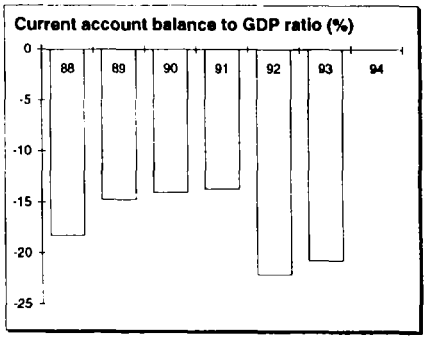
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	3	..	..	..	..
n.a.	..	..	..	..	..
n.a.	..	..	..	..	..
Manufactures	..	..	..	..	..
Total imports (cif)	91	..	..	..	..
Food	18	..	..	..	..
Fuel and energy	..	..	..	..	..
Capital goods	..	..	..	..	..
Export price index *(1987=100)*	..	..	..	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP,%)*	118	79	72	75	..



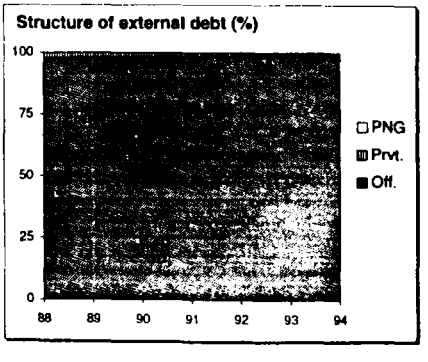
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	36	59	58	48	..
Imports of goods and nfs	95	150	204	179	..
Resource balance	-59	-91	-147	-131	..
Net factor income	2	1	1	-4	..
Net current transfers	22	52	72	71	..
Current account balance					
Before official transfers	-46	-38	-73	-64	..
After official transfers	-9	-12	-4	-10	..
Long-term capital inflow	14	4	6	10	..
Total other items (net)	9	3	12	0	..
Changes in net reserves	-14	5	-13	0	..
Memo:					
Reserves excluding gold *(mill. US$)*	55	77	76	..	..
Reserves including gold *(mill. US$)*	55	77	76	..	..
Conversion rate *(local/US$)*	91.6	70.0	68.0	80.4	81.9



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	183.1	128.7	115.8	280.6	..
IMF credit/exports	0.0	0.0	0.0	0.0	..
Short-term debt/exports	1.9	5.2	6.0	16.6	..
Total debt service/exports	9.7	5.4	9.2	10.0	..
GDP ratios					
Long-term debt/GDP	90.3	52.0	43.3	48.0	50.4
IMF credit/GDP	0.0	0.0	0.0	0.0	0.0
Short-term debt/GDP	0.9	2.1	2.3	2.8	1.2
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	2.5	1.8	1.5	1.5	1.2
Official creditors/long-term	97.5	98.2	98.5	98.6	98.8



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Central African Republic

With an area of 623,000 square kilometers, a population of about 3.2 million growing at 2.5 percent a year, and a per capita income estimated at $400 in 1993, the Central African Republic has large but unexploited natural resources. Only a tenth of its arable land is under cultivation and forest resources are plentiful. Diamonds extracted by artisans account for 60 percent of exports. Other minerals, including gold, are known to exist. However, high transport costs are a constraint to growth in this landlocked country. With the exception of diamonds, which are flown out of the country, its external trade is dependent on long transport routes through neighboring Congo and Cameroon. The main transport route remains the Ubangi River, which is navigable only six months a year. Deterioration in the social sectors during the past years is another constraint to growth.

The Central African Republic's economy declined steeply in the late 1970s and early 1980s, mainly as a result of inappropriate government policies and exogenous shocks. Heavy government interference in agricultural marketing and an ill-advised agricultural reform in 1970 led to a complete halt of research and rapid deterioration of extension services. Unsound and overly ambitious public investment programs and rapidly increasing budget deficits, caused by an oversized and inefficient civil service, nationalized enterprises, and short-term expensive borrowing reinforced the economic decline. These domestic problems were exacerbated by falling prices for its main export crops, coffee and cotton, a drought in 1983, and a growing disenchantment among donors that led to its isolation.

Adjustment Performance 1986-91

Since 1986 the Central African Republic has pursued a series of stabilization and structural adjustment programs supported by the IMF and World Bank and aimed at restoring the basis for medium-term growth and development. As a member of the CFA franc zone, the Central African Republic could not adjust its exchange rate to enhance competitiveness but had to rely on internal adjustment to reduce cost. This strategy was crippled by a deteriorating external environment marked by a significant drop in its terms of trade, aggravated by the appreciation of the exchange rate after 1985. These factors led to an economic contraction. From 1986 to 1993, real per capita income declined by about 20 percent. After improving between 1987 and 1989, the current account deficit (before transfers) worsened to 18.6 percent of GDP in 1991. The deficits were mainly financed through accumulation of arrears and new external debt. The stock of arrears exceeded CFAF 100 billion (or 30 percent of GDP) at end-1993, consisting of CFAF 33 billion in external arrears (before the change in parity) and CFAF 67 billion in domestic arrears — including CFAF 18 billion in salary arrears.

While the internal adjustment strategy failed to bring about growth, it resulted in some lasting changes. Most price controls and trade restrictions were removed. Food crop marketing and pricing was completely liberalized, and the first elements of civil service reform were introduced. The number of government employees was reduced by 11 percent to about 22,000 between 1986 and 1991. The public enterprise sector also underwent reform as the state's portfolio was reduced from 52 to 32 enterprises through liquidations and privatizations. All commercial functions of public enterprises in the agricultural sector, including cotton marketing, were either privatized or liquidated, and their regulatory functions taken over by government agencies. Interest rates were liberalized. The introduction of a three-year rolling investment program, which resulted in the elimination of a number of nonviable projects, marked a further important element of progress.

Political Developments

The economic crisis led to rising social and political tensions, and eventually to the demise of the one-party regime. Starting in 1991, the government was no longer able to meet its payroll obligations as tax collection collapsed. Civil service salaries were paid only intermittently, and by end-1993 were 12 months in arrears. Prolonged strikes by civil servants virtually paralyzed the economy. Expenditure on goods and services was curtailed to such an extent that government agencies no longer had the means to carry out their tasks. The situ-

ation became particularly alarming in the health and education sectors, with most public schools and hospitals virtually ceasing operations. After three years of political unrest, elections monitored by international observers took place in September 1993. The new president formed a coalition government with broad political support. The new government has affirmed its commitment to economic and social reform. Its priority task is to rebuild the country's social and infrastructure sectors.

Recent Economic Developments

In January 1994, in concert with the other members of the CFA franc zone, the Central African Republic devalued its currency by 50 percent in foreign exchange terms. The government adopted an adjustment program supported by an IMF standby in March and implemented most trade and tax policy reforms agreed as a member of the Central African States' Customs and Economic Union, including a four-tier custom tariff ranging from 5 to 30 percent.

Preliminary figures suggest that the devaluation, together with regular payment of government salaries, has triggered a significant supply response, with GDP growth approaching 7 percent in 1994, although the IMF program went off-track because of a significant shortfall in government revenue, as in most other franc zone countries. Consumption of petroleum products, a crude indicator of economic activity, was 28 percent higher in the first ten months of 1994 than in the same period in 1993. Exports of lumber and wood products have also benefited from higher international prices; two lumber companies that had abandoned their operations are back in business. Higher international prices for coffee and cotton should provide an incentive for rehabilitating long-neglected plantations. Inflation in 1994 is estimated at 28 percent, lower than the 35 percent expected.

Poverty and Social Indicators

Poverty is pervasive in the Central African Republic, which was ranked 160th out of 173 countries in the 1994 UNDP Human Development Report. Women are particularly disadvantaged as they shoulder more of the workload, are less educated, and have less access to paid work. The incidence of malaria, diarrhea, parasitism, and malnutrition is high, and AIDS has reached alarming proportions. Three out of four urban households and 85 percent of rural families lack access to safe drinking water. Eighteen percent of children suffer from malnutrition. Only 35 percent of the population over five years of age can read and write. Weak and underfunded social services deteriorated even further in the turmoil of the 1991-to-1993 period, while income and consumption levels sank.

Education services are operating again after being closed down for three years, but they are in disarray and unable to cope with the backlog of children who received no schooling at all for three years. There is a net deficit of about 1,300 primary education teachers, and the problem of overcrowding may worsen before it improves, given the time needed to train teachers. Moreover, curricula are poorly adapted to real needs. The situation in the health sector is the same: the prolonged crisis reduced already inadequate services to a bare minimum and large sections of the population have no access to health care. Where hospitals and health centers do exist, they are badly equipped and poorly maintained, and lack medical supplies. Even before the crisis, public expenditure on health was highly skewed in favor of urban areas, and this situation has not yet been reversed: Bangui, with a third of the population, absorbs 90 percent of the health sector's operating budget and has 70 percent of the country's doctors. Health indicators are well below Sub-Saharan Africa averages, especially in the rural areas.

The government is preparing a national environmental action plan that is expected to be finalized by end-1995, and for which it will seek assistance from the donor community. The Central African Republic has a satisfactory forestry code, which was enacted in 1990, and a zoning system that identifies protected areas.

Medium-Term Prospects

The Central African Republic's economy would have to grow by at least 5 percent a year to establish a minimum level of welfare and security. Even with this rate of growth, it would take at least ten years to reach the per capita income levels of the late 1970s in real terms. Significant improvement in per capita incomes and living standards over the longer term would require higher rates of growth.

The 5 percent initial growth target is feasible. Coffee and cotton production is expected to continue to react favorably to the devaluation and higher international prices. Only one-tenth of the country's 20 million hectares of arable land is under cultivation; the potential for crop diversification is good, and the potential for livestock expansion is promising; about half the area of the country is suitable for grazing, but only 15 percent is used. The mining sector could be an even more significant contributor to the economy: over 60 percent of the country's export earnings and about 12 percent of fiscal receipts are yielded by artisanal diamond exploitation. Much of the country rests on Precambrian rock formations that in other African countries host valuable mineral deposits, including gold. Over the longer term, the

manufacturing and service sectors have the potential to expand 7 to 8 percent a year, and they could make an increasing contribution to economic growth if policies are pursued to foster private enterprise. Wood and agro-processing industries as well as tourism are possible sources of future growth.

A steep increase in domestic savings and investment would be needed to sustain growth of 5 percent. Between 1994 and 1997, the shares of domestic savings and investment in GDP are expected to increase from 5.2 percent to 8.7 percent, and from 14.4 percent to 17 percent, respectively, and an increasing private-sector contribution to investment is expected. Private-sector investment represents 2.5 percent of GDP at present.

Over past years the business environment has not been conducive to private investment. A major factor was the overvaluation of the currency. Potential investors were also deterred by a complex regulatory framework and the lack of an independent judiciary. The devaluation has relaxed one major constraint, but the deficiencies in the regulatory and judicial frameworks remain to be addressed: overly protective labor legislation, cumbersome licensing procedures for new businesses, and an ineffective judicial system.

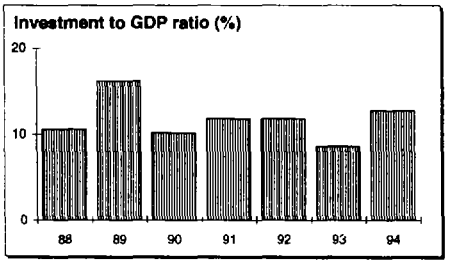
Central African Republic

Population mid-1993 *(millions)* **3.2**
GNP per capita 1993 *(US$)* **400**

Income group: **Low**
Indebtedness level: **Severely Indebted**

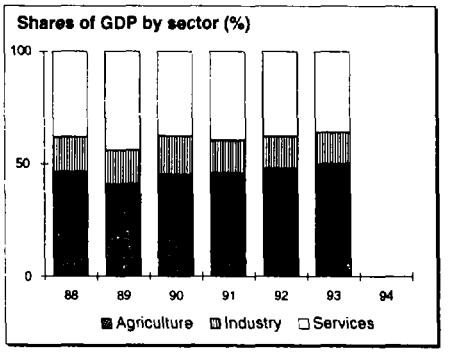
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	14.5	10.2	11.8	8.6	12.8
Exports of goods and nfs/GDP	25.2	16.3	12.5	15.3	22.4
Gross domestic savings/GDP	-0.3	-6.3	3.3	1.5	4.4
Gross national savings/GDP	-3.5	-10.7	-0.8	-2.7	..
Current account balance/GDP	-16.6	-18.8	-13.7	-11.3	..
Interest payments/GDP	1.0	0.7	0.5	0.3	0.4
Total debt/GDP	49.4	54.9	63.0	73.3	95.6
Total debt/exports	188.4	324.7	457.4	469.0	..



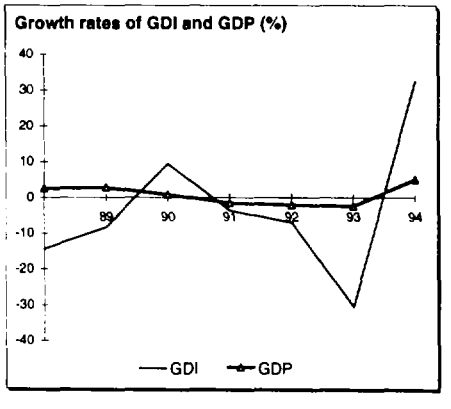
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	39.9	45.0	47.9	49.9	..
Industry	13.7	17.2	14.3	14.1	..
Manufacturing	7.3	..	..	..	..
Services	46.4	37.7	37.8	36.0	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	2.2	*0.2*	0.8	2.9	..
Industry	5.1	*-4.6*	-10.3	0.0	..
Manufacturing	..	..	..	..	..
Services	-1.7	*-2.1*	1.5	-5.7	..
GDP	0.9	-0.7	-2.1	-2.5	5.0



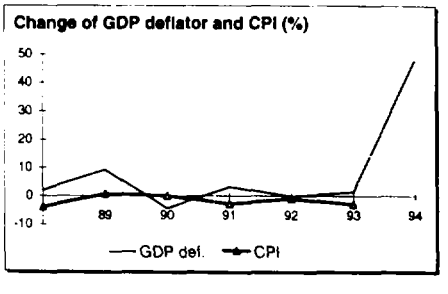
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	86.5	96.4	86.8	88.7	89.0
General government consumption	13.8	9.9	9.9	9.8	6.6
Gross domestic investment	14.5	10.2	11.8	8.6	12.8
Exports of goods and nfs	25.2	16.3	12.5	15.3	22.4
Imports of goods and nfs	39.9	32.7	21.0	22.5	30.8
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	2.6	-3.1	0.1	-9.3	2.2
General government consumption	-3.2	-6.2	-3.0	-6.2	-14.6
Gross domestic investment	-8.4	-7.9	-7.1	-30.5	32.4
Exports of goods and nfs	-3.7	4.4	-10.4	26.1	19.8
Imports of goods and nfs	-3.1	-9.8	-1.5	-22.8	6.1
Gross national product	0.3	-1.4	-2.4	-4.2	5.0
Gross national income	0.1	-2.4	-0.1	-9.6	3.4



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	10.4	0.0	-1.0	-2.9	..
Wholesale prices	6.7	1.6	..	..	..
Implicit GDP deflator	9.2	-4.3	0.0	1.5	48.4
Government finance					
(% of GDP)					
Current budget balance	..	-1.6	-3.6	-4.6	-2.0
Overall surplus/deficit	..	-12.0	-12.1	-11.8	..

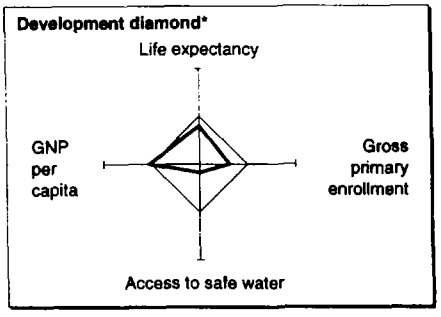


Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

POVERTY and SOCIAL

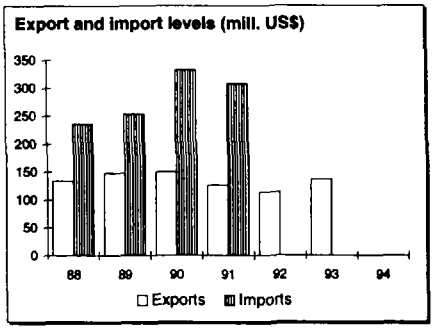
	1985-90	1990-94
(annual growth rates)		
Population	2.4	*2.5*
Labor force	1.5	1.8

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	49.5
Infant mortality *(per 1,000 live births)*	100.8
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	11.9
Energy consumption per capita *(kg oil equivalent)*	29.2
Illiteracy *(% of population age 15+)*	62.3
Gross primary enrollment *(% of school-age population)*	68.0



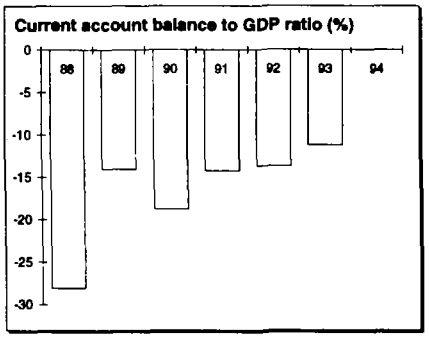
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	131	150	114	136	..
Diamonds	34	72	69	71	..
Coffee	41	10	5	8	..
Manufactures	..	..	..	..	..
Total imports (cif)	222	333	..	..	..
Food	22	34	..	..	..
Fuel and energy	23	18	17	16	..
Capital goods	80	139	..	..	..
Export price index *(1987=100)*	..	..	..	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP,%)*	65	49	33	38	53



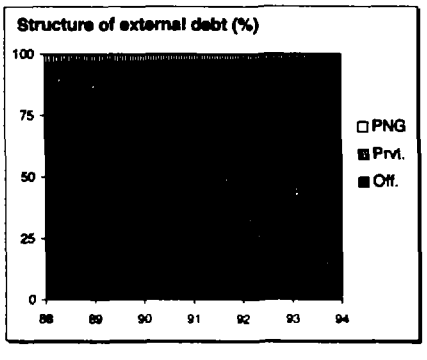
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	178	220	177	190	203
Imports of goods and nfs	276	410	309	278	279
Resource balance	-98	-191	-132	-88	-76
Net factor income	-7	-22	-19	-23	..
Net current transfers	-12	-33	-32	-28	-23
Current account balance					
Before official transfers	-117	-245	-183	-139	..
After official transfers	-49	-89	-57	-21	..
Long-term capital inflow	43	90	47	9	20
Total other items (net)	-14	-10	14	14	..
Changes in net reserves	20	9	-3	-2	-6
Memo:					
Reserves excluding gold *(mill. US$)*	50	119	100	112	..
Reserves including gold *(mill. US$)*	53	123	104	116	..
Conversion rate *(local/US$)*	449.3	272.3	264.7	283.2	555.2



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	157.5	291.2	409.5	413.5	..
IMF credit/exports	21.1	16.7	16.6	14.9	..
Short-term debt/exports	9.8	16.8	31.3	40.6	..
Total debt service/exports	14.3	13.2	8.5	4.8	..
GDP ratios					
Long-term debt/GDP	41.3	49.2	56.4	64.6	87.4
IMF credit/GDP	5.5	2.8	2.3	2.3	4.5
Short-term debt/GDP	2.6	2.8	4.3	6.3	3.7
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	8.6	3.7	2.9	2.7	2.1
Official creditors/long-term	91.4	96.3	97.1	97.3	97.9



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Chad

Chad, a landlocked country, with a population of 6.8 million composed of many different ethnic groups, is endowed with valuable natural resources, which have not been properly exploited because of its turbulent history. Brief growth periods have been interrupted by steep declines caused by political instability and civil strife. Per capita GNP, estimated at $210 in 1993, is lower than it was at independence, and Chad is today one of the poorest and least developed countries in the world.

The level of primary health and education is lower than in most other Sahelian countries. Female adult literacy is only 18 percent, compared with an average of 38 percent for Sub-Saharan Africa. Infant mortality is estimated at 124 per 1,000 live births, compared with a regional average of 106, and life expectancy at birth is 47, five years below the regional average. Low health indicators are due to malnutrition, lack of clean water, and poor sanitation and hygiene. Since less than 2 percent of the population has access to electricity, households have to rely almost exclusively on wood to satisfy their energy needs, and this leads to a deterioration of the environment around urban centers.

Agriculture generates close to 40 percent of GDP and provides a livelihood for over 80 percent of the population. Compared with other Sahelian countries, Chad has good agricultural potential, especially in the south, where most of the population is concentrated. Food production potential is sufficient to meet domestic demand; but growth has been hindered by the lack of security and illegal taxation by paramilitary units. Food is produced mainly by smallholders for family subsistence, and the level of production fluctuates widely with rainfall. Food security raises concern particularly in the Sahelian area. Livestock, cotton, and gum arabic provide the main source of cash income for the rural population. The industrial sector contributes about 17 percent of GDP and is dominated by COTONTCHAD, a parastatal that processes and exports cotton. The rest of the industrial sector consists of several medium-scale enterprises and a large number of micro-enterprises producing consumer goods for the domestic market.

Chad also has important mineral resources, in particular, sizable proven oil reserves, which, if exploited, would radically change its economic outlook.

A civil war from 1979 to 1983 was followed by a period of peace and economic rehabilitation, and in 1987 the government launched an adjustment program supported by the IMF and IDA, but progress was halted by a new round of civil war that ended in December 1990. The conflict brought structural reforms to a standstill and the situation of public finances deteriorated. Government current receipts fell to the equivalent of 6 percent of GDP in 1994 from 9 percent in 1990. With a reduction in external assistance, a decline in cotton prices, and a poor crop in 1993, the public finance situation became critical and the government accumulated domestic and external arrears.

Recent Political and Economic Developments

A national conference of 40 political parties and the civilian and military authorities reached agreement in April 1993 on the outline of a new constitution, a new electoral process, and the selection of a prime minister to head a 12-month transitional government with a mandate to prepare general elections and implement an ambitious economic rehabilitation program. However, economic issues were overshadowed by political ones and the financial situation further deteriorated.

In January 1994 Chad joined the other countries of the CFA franc zone in devaluing the CFA franc by 50 percent and implemented the West African Customs Union tax and trade reform program, establishing a four-tier tariff ranging from 5 to 30 percent. A new adjustment program supported by the IMF and IDA in March 1994 included measures designed to contain the inflationary pressures resulting from the devaluation while protecting vulnerable population groups. Fiscal performance lagged in the first half of 1994, and external payments arrears built up, but the situation improved dramatically in the third quarter of 1994 with a 125 percent increase in average monthly cash receipts.

Inflation, which increased more than 50 percent in the five months following the devaluation, started to decline

in the third quarter of 1994 and is not expected to increase much over 40 percent for the full year, which is broadly in line with the original program target. The devaluation triggered a significant supply response. Some 100,000 head of cattle were exported in the first half of 1994, as compared to 30,000 for the whole of 1993. Exports of gum arabic are expected to quadruple from 1993 to 1994 and to reach some $26 million, equivalent to 17 percent of Chad's total export earnings in 1994.

The supply response to the one-third increase in the cotton producer price announced after the devaluation has been strong and the 1994/95 harvest is expected to exceed the previous one by more than one-third. Since part of the 1993/94 crop was sold after the devaluation, while producers were paid at predevaluation prices, COTONTCHAD made a sizable profit on the 1993/94 crop, for the first time in many years. With booming exports, the external current account deficit before official transfers is expected to remain at 20 percent of GDP, compared with a 29 percent program target. The net external assets of the banking system turned from a small negative amount at the end of 1993 to a positive amount equivalent to 9 percent of GDP at the end of September 1994, which greatly improved the liquidity position of the banking system. Commercial banks had repaid credits to the central bank by June 1994 and had no need to borrow from the money market established on July 1, 1994.

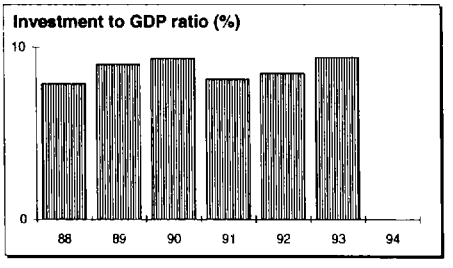
Chad

Population mid-1993 *(millions)* **6.0**
GNP per capita 1993 *(US$)* **210**

Income group: **Low**
Indebtedness level: **Moderately indebted**

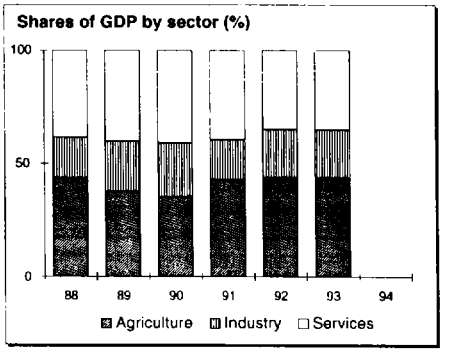
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	8.2	9.4	8.5	9.4	..
Exports of goods and nfs/GDP	16.9	19.3	17.2	13.4	..
Gross domestic savings/GDP	-19.4	-12.2	-13.6	-9.9	..
Gross national savings/GDP	-33.1	-17.0	-17.2	-14.2	..
Current account balance/GDP	-30.4	-24.3	-22.1	-23.5	-17.9
Interest payments/GDP	0.3	0.3	0.5	0.6	1.5
Total debt/GDP	26.4	41.6	54.2	63.2	91.1
Total debt/exports	192.7	212.5	321.2	371.6	458.2



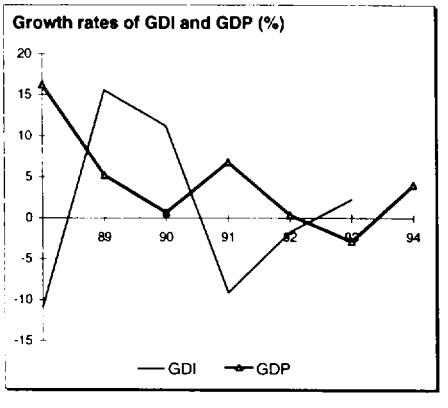
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	45.2	35.1	43.8	43.6	..
Industry	17.6	24.1	21.4	21.6	..
Manufacturing	15.9	22.1	15.9	16.1	..
Services	37.3	40.8	34.8	34.8	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	1.6	*6.9*	6.0	-3.7	..
Industry	7.1	*-9.9*	-10.6	-3.8	..
Manufacturing	7.3	*-9.2*	-6.6	-3.0	..
Services	3.2	*-0.1*	-0.9	-11.0	..
GDP	3.9	1.3	0.3	-2.9	4.0



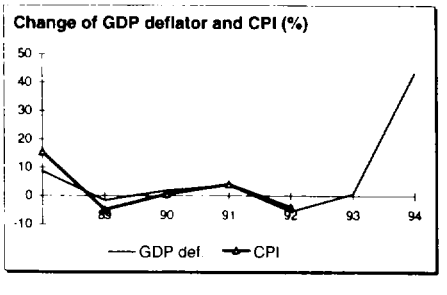
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	102.7	91.3	99.1	93.4	..
General government consumption	16.7	20.9	14.5	16.6	..
Gross domestic investment	8.2	9.4	8.5	9.4	..
Exports of goods and nfs	16.9	19.3	17.2	13.4	..
Imports of goods and nfs	44.5	40.8	39.3	32.8	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	0.1	*5.3*	2.5	-3.3	..
General government consumption	7.3	*-9.1*	-25.9	10.2	..
Gross domestic investment	5.0	*-2.9*	-1.7	2.2	..
Exports of goods and nfs	10.0	*-15.8*	-6.7	-25.8	..
Imports of goods and nfs	0.0	*-3.1*	-9.4	-7.8	..
Gross national product	3.9	2.1	2.0	-1.5	4.0
Gross national income	2.9	*3.8*	2.0	0.4	..



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	5.2	0.6	-4.1	..	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	-4.2	1.9	-5.5	0.6	43.3
Government finance					
(% of GDP)					
Current budget balance	-1.1	-5.3	-6.1	-7.8	..
Overall surplus/deficit	-8.9	-22.5	-23.1	-16.5	..

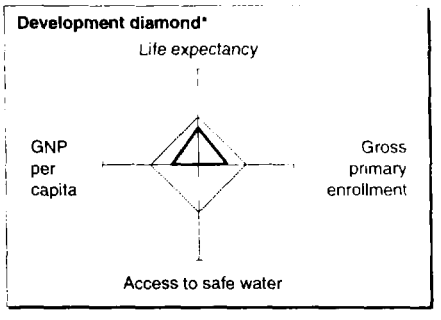


Note. 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

POVERTY and SOCIAL

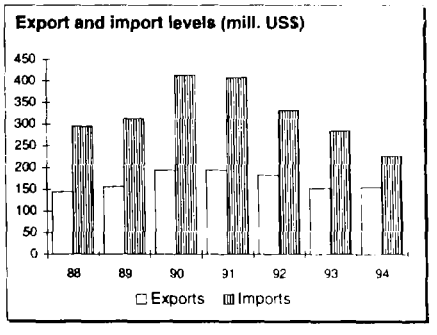
	1985-90	1990-94
(annual growth rates)		
Population	2.0	*2.6*
Labor force	1.9	2.0

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	47.9
Infant mortality *(per 1,000 live births)*	120.0
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	..
Energy consumption per capita *(kg oil equivalent)*	16.5
Illiteracy *(% of population age 15+)*	70.2
Gross primary enrollment *(% of school-age population)*	65.0



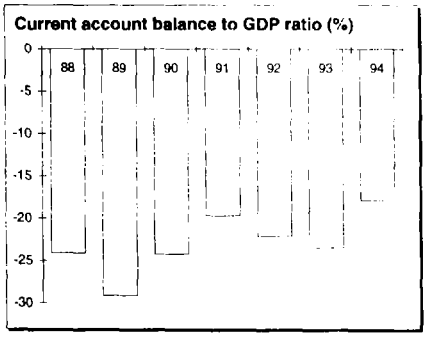
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	88	194	182	152	154
Cotton	44	96	96	57	54
Meat	26	53	50	44	50
Manufactures	5	..	..	..	..
Total imports (cif)	185	414	331	284	226
Food	..	..	..	..	..
Fuel and energy	19	..	..	..	..
Capital goods	54	..	..	..	..
Export price index *(1987=100)*	..	..	..	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP,%)*	61	60	56	46	..



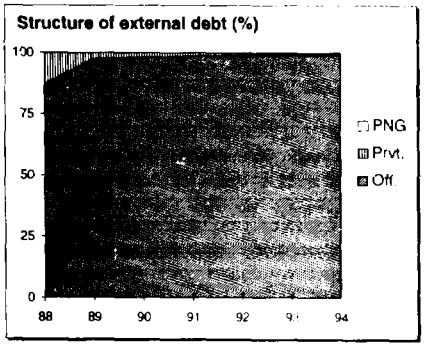
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	94	235	209	195	181
Imports of goods and nfs	320	498	467	429	328
Resource balance	-226	-264	-258	-234	-147
Net factor income	-2	-18	3	-12	-8
Net current transfers	7	-13	-35	-35	-8
Current account balance					
Before official transfers	-221	-295	-290	-281	-163
After official transfers	-87	-91	-86	-111	-39
Long-term capital inflow	68	129	74	135	71
Total other items (net)	-3	-41	-16	-59	44
Changes in net reserves	22	2	28	35	-76
Memo:					
Reserves excluding gold *(mill. US$)*	33	128	80	39	..
Reserves including gold *(mill. US$)*	37	132	84	43	..
Conversion rate *(local/US$)*	449.3	272.3	264.7	283.2	555.2



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	160.4	187.6	298.2	345.9	429.8
IMF credit/exports	12.1	12.8	13.4	13.6	22.1
Short-term debt/exports	20.2	12.1	9.6	12.1	6.3
Total debt service/exports	17.6	5.1	5.2	6.1	14.4
GDP ratios					
Long-term debt/GDP	21.9	36.7	50.3	58.9	85.5
IMF credit/GDP	1.7	2.5	2.3	2.3	4.4
Short-term debt/GDP	2.8	2.4	1.6	2.1	1.3
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	18.5	1.9	1.1	1.0	0.8
Official creditors/long-term	81.5	98.1	98.9	99.0	99.2



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete

Comoros

The Islamic Federal Republic of the Comoros became independent in 1975. The Comoros is an archipelago of three islands, inhabited by a largely homogeneous Islamic population of about 530,000 with a GNP per capita of $560 in 1993. It is predominantly rural and highly dependent on external assistance. Agriculture and services account for 89 percent of GDP, and construction and manufacturing around 11 percent. The industrial sector is limited to export crop processing and a few consumer goods supplying the domestic market. Tourism has started to develop and shows promising growth potential. The Comoros' social indicators compare favorably with the average for Sub-Saharan Africa. Life expectancy at birth is 56 years and the infant mortality rate is 89 per 1,000. Between 1975 and 1992, primary school enrollment increased from 46 percent to 75 percent of the school-age group.

In 1990 the Comoros introduced a multiparty system after more than a decade of one-party rule. Following open presidential elections in March 1990, a new constitution was approved by referendum in June 1992. Legislative elections in December 1993 gave an absolute majority to the political party supporting the president. This progress toward democratization has, however, been accompanied by political tension and frequent changes of government. The latest change took place in April 1995.

During the decade following independence real GDP per capita grew at an annual average of 3 percent, fueled by an ambitious program of infrastructure investment. This period of growth ended when these externally financed projects were completed, and financial problems emerged. Over 1987-90 real GDP per capita declined at an annual average of 2 percent, and public finance deficits (before capital grants) averaged 12 percent of GDP. External debt arrears accumulated, reaching $44 million by end-1990. This poor economic performance following the "growth bubble" of foreign-financed infrastructure projects underscored the severity of the Comoros' developmental constraints: a narrow export base concentrated on vanilla, cloves, and perfume essence facing volatile world demand, underdeveloped human resources, weak economic management, and an unfavorable private-sector environment.

Recent Economic Developments

In 1991 the government launched an adjustment program to address the macroeconomic imbalances and remove some of the structural constraints to growth. The program, supported by IDA and the IMF, focused on restoring macroeconomic stability, beginning the process of improving public-sector performance and establishing a favorable environment for private activity. After initial delays caused by an unsettled political climate in which the fiscal situation deteriorated further, the program accelerated. The authorities corrected earlier slippages, especially in public-sector performance, and implemented the rest of the program satisfactorily. In January 1994, in a bid to enhance the competitiveness of exports and improve economic performance, the authorities devalued the Comorian franc by 33 percent in foreign currency terms.

Under the program, the government cut the size of the civil service by 35 percent and the military by a third; reduced civil servants' wages by 17 percent by end-1993, and decreased civil servants' allowances for housing, transportation, and utilities. The government further reduced the scope of the public sector by withdrawing from commercial and productive activities carried out by parastatals. To stimulate private-sector development, it liberalized external trade by abolishing import monopolies on several products, including cement, tobacco, higher-grade rice, and meat, and lowering the barrier to entry into vanilla exports by reducing the minimum required quantity allowed to be exported from 15 to 5 tons. The authorities also launched a program of tax reform, beginning with simplifying the tariff structure. Finally, the government reduced price controls to a dozen essential commodities and took steps to boost private-sector know-how by creating a center to provide technical support to small businesses, and simplified administrative procedures for business creation.

Over 1991-93, the economy recovered moderately, posting real GDP growth averaging 1.9 percent, compared with an average of 1 percent over the previous three years. Agriculture accounted for most of the recovery. Domestic savings improved from negative 3.7 percent of GDP in 1991 to zero percent in 1993. The

budgetary deficit (before capital grants) fell from 13.1 percent of GDP in 1991 to 7.4 percent in 1993, owing to expenditure cuts through civil service reduction. The external current account deficit (before capital grants) was marginally reduced from 11.1 percent of GDP in 1991 to 10.5 percent in 1993, as imports declined in response to the reduced aggregate demand pressure, exports began to recover, and tourism receipts started to increase.

The economy has begun to respond favorably to the devaluation. In 1994, although real GDP growth was still low at 1.4 percent, domestic savings modestly increased to a positive 0.4 percent of GDP. Exports of cloves and perfume essence rose more than 50 percent, albeit from a low base. Although this was offset partly by a 25 percent decline in vanilla exports from an exceptionally high level in 1993 (when about 20 percent were re-exports of vanilla from Madagascar), it contributed to a slight improvement in the external current account deficit to 10.3 percent of GDP. The inflation rate rose by some 20 percent during 1994 following the devaluation, but there are indications that the inflation spurt has faded in recent months.

Fiscal performance in 1994 was, however, weak owing to a major shortfall in revenues, which declined to 16.6 percent of GDP, compared with 20 percent in 1993. This was due partly to low imports and partly to weakness in tax administration. The wage bill went up 11 percent, but the increase was more than offset by savings on goods and services and transfer payments. However, because of major shortfall in revenues, the overall budgetary deficit widened to 12 percent of GDP, and salary payments were two months late by end-1994. The government has adopted corrective measures to increase fiscal revenues and control expenditure that should improve fiscal performance in 1995.

Medium-Term Prospects

The Comoros has unrealized economic potential in tropical agriculture, fishing, tourism, and labor-intensive light manufactures. Agriculture will remain the main source of growth in the foreseeable future. An Agriculture Strategy Study, completed in 1993 with World Bank and UNDP assistance, identified important opportunities to increase production and diversify export into fruits and flowers, herbs and spices, and quality perfume essence by rationalizing farming systems to increase productivity, improving agricultural marketing, reviewing land tenure policy, and preserving the fragile ecosystem. The government has started to review land-use rights and will soon initiate a consultation process with the population over legislative and administrative structures to resolve tenure issues. At the same time, environmental actions have been initiated to control soil erosion and discourage consumption of the dwindling fuelwood supply through various measures, including cross-subsidizing the price of kerosene. A national environment action plan including a long-term environment strategy was adopted in 1994 and contains integrated conservation measures to protect the fragile ecosystem and develop local capacity to manage environment issues.

A 12 percent annual increase in tourist arrivals over 1991-94 attests to the growth potential of this sector. To guide and ensure the sustainable development of tourism, the authorities plan to prepare a tourism strategy and a master plan for the sector. Development of the manufacturing sector is constrained by the small domestic market, high production costs, and a shortage of skilled labor. As external communications improve and the Comoros emerges from its relative isolation to develop closer links with the rest of the world, there is scope to enhance efficiency in existing services and move to new ones through training, market research, and promotion.

The recent devaluation of the Comorian franc, combined with policy measures to protect competitiveness gains, stimulate private sector development, and enhance labor skills, should help the Comoros achieve its development potential and accelerate sustained economic growth. The Comoros is also opening its economy more to the outside world, relying in part on its participation in the Cross Border Initiative adopted by the countries of East and Southern Africa and the Indian Ocean to stimulate trade and investment among themselves and with the outside world. The liberal trade and investment policies to be undertaken in the context of this initiative should provide increased growth opportunities for the Comoros.

The potential for accelerating long-term economic growth in the Comoros is burdened by population growth of over 3 percent a year. Although the government has taken steps to encourage birth spacing, unless population growth can be significantly reduced, the scope for increased domestic savings and higher living standards will be limited.

The government's medium-term objectives are to increase GDP growth from an estimated 1.4 percent in 1994 to 3.5 percent in 1997. This growth is expected to be supported by investment averaging about 19 percent of GDP. External sources will still provide the bulk of financing for investment, although domestic sources are expected to contribute an increasing share owing to expected improvements in public finance predicated on enhanced revenue performance as a result of more efficient tax administration and greater discipline in current expenditure. The consequent restraint in aggregate demand would result in the external current account deficit (before capital grants) improving from 10.3 percent of GDP in 1994 to 8.8 percent by 1997.

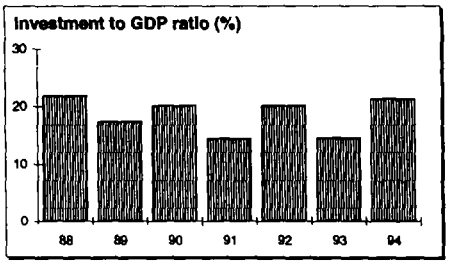
Comoros

Population mid-1993 *(thousands)* **471**
GNP per capita 1993 *(US$)* **560**

Income group: **Low**
Indebtedness level: **Moderately indebted**

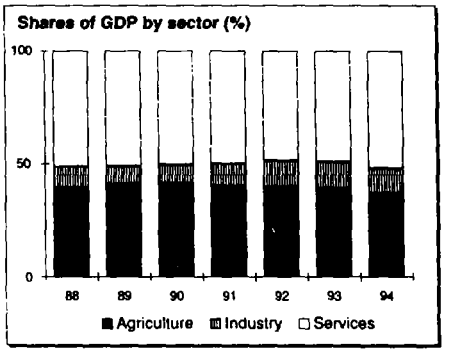
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	32.8	20.2	20.2	14.6	21.3
Exports of goods and nfs/GDP	17.0	11.7	16.4	19.0	17.8
Gross domestic savings/GDP	-0.3	-5.5	0.6	1.1	4.5
Gross national savings/GDP	-2.1	7.8	4.0	5.8	11.0
Current account balance/GDP	-40.4	-12.2	-16.1	-10.8	-10.4
Interest payments/GDP	1.3	0.2	0.8	0.2	0.0
Total debt/GDP	117.1	75.7	69.3	73.4	86.2
Total debt/exports	542.8	466.2	290.7	333.5	346.7



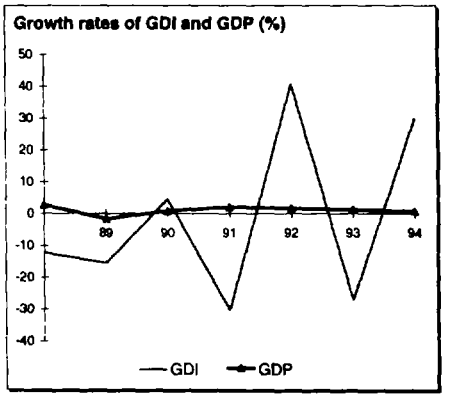
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	36.1	41.4	39.6	39.0	36.9
Industry	14.1	8.3	11.9	12.1	11.3
Manufacturing	3.7	4.2	4.4	4.2	3.9
Services	49.8	50.3	48.5	48.9	51.8
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	3.3	0.4	-0.8	-0.7	2.8
Industry	-9.5	12.7	21.5	10.3	1.0
Manufacturing	4.6	2.4	5.6	3.6	-3.2
Services	1.6	0.1	-0.1	0.9	-0.9
GDP	1.1	1.4	1.6	1.3	0.8



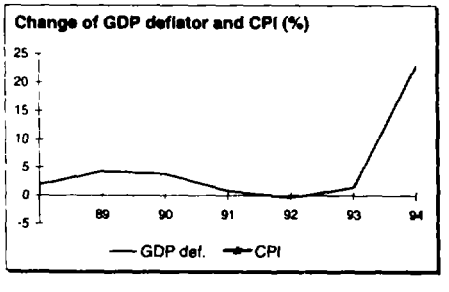
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	72.7	79.7	77.4	77.5	74.4
General government consumption	27.5	25.7	22.0	21.3	21.1
Gross domestic investment	32.8	20.2	20.2	14.6	21.3
Exports of goods and nfs	17.0	11.7	16.4	19.0	17.8
Imports of goods and nfs	50.1	37.3	36.0	32.5	34.7
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	2.7	-0.6	0.4	0.7	-4.7
General government consumption	0.4	-4.7	-7.3	0.0	-8.0
Gross domestic investment	-8.0	-1.2	40.7	-27.0	29.9
Exports of goods and nfs	-2.2	13.5	-4.0	20.6	-5.4
Imports of goods and nfs	-2.8	-3.6	4.3	-5.9	-10.3
Gross national product	1.4	1.6	3.3	0.5	0.3
Gross national income	1.1	0.8	3.4	0.4	-2.8



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	..	..	..	..	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	7.1	3.8	-0.4	1.4	22.8
Government finance					
(% of GDP)					
Current budget balance	-5.3	-2.0	-2.6	-3.1	..
Overall surplus/deficit	-19.7	-16.6	-18.9	-11.9	-21.8

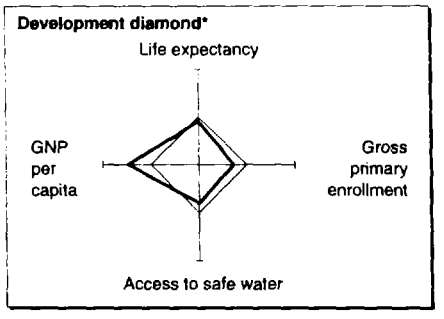


Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

POVERTY and SOCIAL

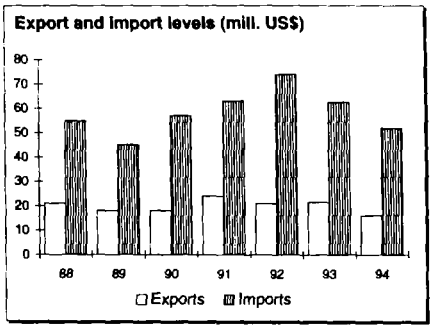
	1985-90	1990-94
(annual growth rates)		
Population	2.6	*2.8*
Labor force	2.5	2.6

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	56.4
Infant mortality *(per 1,000 live births)*	92.4
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	55.0
Energy consumption per capita *(kg oil equivalent)*	29.7
Illiteracy *(% of population age 15+)*	..
Gross primary enrollment *(% of school-age population)*	79.0



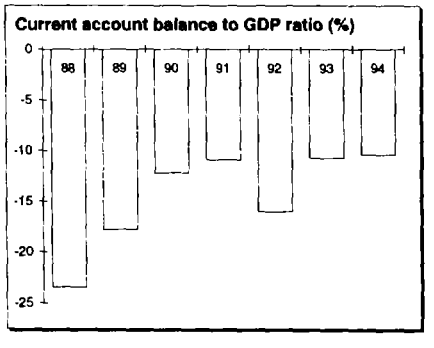
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	15	18	21	22	16
Vanilla	11	9	16	17	11
Girofle	3	1	0	1	1
Manufactures	..	..	..	..	..
Total imports (cif)	40	57	74	63	52
Food	6	10	13	10	9
Fuel and energy	4	6	7	6	6
Capital goods	..	..	..	..	..
Export price index *(1987=100)*	..	..	..	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP,%)*	67	49	52	52	52



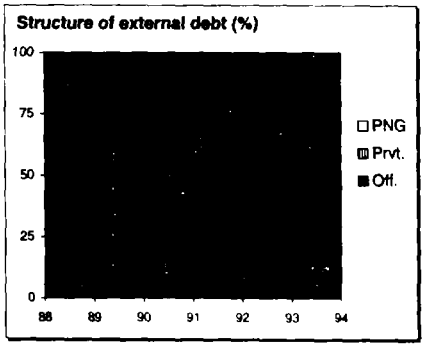
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	20	29	43	45	40
Imports of goods and nfs	64	91	94	82	76
Resource balance	-44	-62	-51	-37	-36
Net factor income	-1	-1	4	0	0
Net current transfers	0	33	5	10	14
Current account balance					
Before official transfers	-46	-30	-42	-27	-22
After official transfers	-14	-7	-15	2	-2
Long-term capital inflow	20	0	2	-1	1
Total other items (net)	0	-6	7	2	-3
Changes in net reserves	-6	12	6	-3	4
Memo:					
Reserves excluding gold *(mill. US$)*	12	30	27	..	..
Reserves including gold *(mill. US$)*	12	30	27	..	..
Conversion rate *(local/US$)*	449.3	272.3	264.7	283.2	416.4



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	525.0	433.1	270.3	306.9	342.9
IMF credit/exports	0.0	0.0	1.9	2.2	1.9
Short-term debt/exports	17.8	33.1	18.5	24.5	1.9
Total debt service/exports	8.9	1.8	6.3	5.3	1.9
GDP ratios					
Long-term debt/GDP	113.3	70.4	64.5	67.6	85.3
IMF credit/GDP	0.0	0.0	0.5	0.5	0.5
Short-term debt/GDP	3.8	5.4	4.4	5.4	0.5
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	0.2	0.0	0.0	0.0	0.0
Official creditors/long-term	99.8	100.1	100.0	100.0	100.0



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete

Congo

Oil has been Congo's blessing and curse since the early 1970s, dominating the economy, finances, and the behavior of policymakers. Oil wealth accelerated Congo's annual rate of economic growth from 2.8 percent over 1970-72, to 7.8 percent during 1978/79, and to 8.4 percent over 1982/85. Oil wealth also pushed Congo's per capita income to one of the highest levels in Sub-Saharan Africa, about $1,280 in 1982. Since then, however, softening oil prices and an overvalued CFA franc combined with accumulated errors of past economic policies to trap Congo in a protracted economic and financial crisis.

Congo failed to reduce its expenditures in response to collapsing oil revenues. The government assumed that the fall in oil prices was transitory and continued to live beyond its means. The fiscal deficit grew considerably over time, from 8.2 percent of GDP in 1986 to 21.5 percent in 1993. The government financed the deficit through increased indebtedness, domestically and externally, and by accumulating arrears. Occasionally, the government resorted to mortgaging future oil royalties, aggravating debt-management problems. By 1993 Congo's external debt had reached about $5.1 billion, equivalent to 210 percent of GDP. Notwithstanding debt reductions by some key donors following the CFAF devaluation, Congo's $4.7 billion debt accounted for 317 percent of GDP at the end of 1994. The economy remained generally stationary over 1986-92, declining at 1.5 percent in 1993 and 4.6 percent in 1994. Per capita income declined from $1,040 in 1992 to $950 in 1993. Following socialist-inspired state interventionism, the state became the dominant producer of goods and services and the main employer in Congo. After indiscriminate and politically motivated recruitment over the years, the total public work force climbed to 80,000. One out of every 25 Congolese is a civil servant, one of the highest ratios in Africa. The civil service wage bill has consequently become the chief burden on the budget, absorbing 86 percent of annual revenues during fiscal 1992. With the decline in revenues, government slipped behind in paying salaries: four months in 1992, three in 1993, and another three in 1994, for a total of ten months.

The state dominated productive and commercial activities through a network of public enterprises whose management was primarily concerned with rent-seeking, patronage, and satisfying social objectives. At the heart of the public enterprise network are six large companies — petroleum refining, distribution of petroleum products, transport, electricity, telecommunications, and water — whose inefficiency not only drains the budget but severely constrains economic growth, particularly with regard to the private sector. These enterprises are close to bankruptcy because of poor management, excessive staffing, and artificially low tariffs. Petroleum led the authorities to neglect other sectors where Congo had historically had a comparative advantage. By the late 1980s the volume of timber exports had declined to 50 percent of 1970 levels, as a result of transport bottlenecks and excessive handling costs. Sea, air, and road links declined for the same reasons, and the Congo lost its position as transit center for neighboring countries. Development of agriculture, vital for the diversification of the economy, was handicapped by reliance on poorly managed state enterprises, by the rundown rural road network, and by the absence of private transport. As one of Africa's most urbanized societies (60 percent), Congo could not cope with the challenge of continued urban migration, which placed unbearable pressures on the highly subsidized social services and public utilities. Its once high indicators of achievement in health and education were progressively eroded as government failed to sustain key nonsalary expenditures.

Poverty and Social Indicators

Congo's precipitous decline in real per capita GDP since 1984 resulted in increased poverty in urban and rural areas. While labor supply expanded by about 25 percent, employment in the formal sector increased by only 15 percent, swelling the number of the unemployed. Unemployment among urban youth is estimated at 40 percent. Rural poverty increased as men continued to seek urban jobs, leaving women and children to till the land.

Health conditions are alarming: female mortality related to childbirth is high, between 600 and 900 per 100,000 live births. Child mortality is also high (124 per 1,000 live births and 96 per 1,000 for children under five). Malaria, tuberculosis, and parasitic infections are common. Malnutrition affects 20 percent of children, and 40 percent in some isolated areas. AIDS has a major impact (120,000 seropositive cases so far), with 7 to 10 percent of urban women affected. Many children are born seropositive, and the pool of orphans is growing (15,000 in 1994). The health sector work force is rarely paid, poorly motivated, often unqualified, and badly deployed. The health budget can only equip and supply a few curative facilities, neglecting primary health care. State agencies for procuring and producing medicine are inefficient, leading to prices beyond the reach of the average citizen.

Education and training mirror health in terms of budgets, personnel management, equipment and supplies, and the dilapidation of physical plant. Internal efficiency is low. In primary school 30 to 40 percent of every class has students repeating or "tripling" the school year. Only 75 percent of entering students reach the last grade of the six-year primary cycle, taking on average 11 years to do so. Secondary education is equally inefficient, as only 20 percent of entering students obtain baccalaureates. Instruction is sacrificed to meet high social costs, notably student stipends. Training has been more seriously disrupted by tight budgets, as materials are absent, and skilled trainers have left for more remunerative private employment.

Recent Political Developments

The economic crisis led to the demise of the Marxist-oriented regime. A national conference in 1991 was followed by presidential and legislative elections in July 1992 and the establishment of Congo's first democratically elected government that August. The situation remained unsettled, however, and by mid-1993 militias of the various political factions were fighting in the streets of the capital, Brazzaville, leading to the deaths of hundreds and the flight of several thousands from neighborhoods that sustained serious damage. In early 1994 political calm was reestablished through international arbitration sponsored by the European Union and the Organization of African Unity The government reform program, prepared to take advantage of the CFAF devaluation, was approved by the National Assembly early in 1994. In January 1995, following intensive talks with the opposition parties, a government of national unity was established, with a sharp reduction of cabinet members by consolidating ministries. The IMF approved a standby arrangement in May 1994, and IDA approved an economic recovery credit in June 1994 that supported public sector reforms to reduce the civil service, set the framework for privatizing public enterprises, and introduce a new petroleum law.

Medium-Term Prospects

Congo's potential in oil, forestry, agriculture, and manufacturing should permit real annual GDP growth of about 5 percent a year after 1996. In response to the envisaged reforms of the trade regime and regulatory framework and substantial new investments in oil, total private investments in the oil and nonoil sectors are expected to rise from 17 percent of GDP in 1993 to 27 percent in 1996. Public sector investments are projected to recover from less than 1 percent of GDP in 1993 to about 7 percent in 1996. These investments are expected to be concentrated in the priority sectors of health, education, rural roads, and transport. To finance this investment level, domestic savings will need to increase substantially. Private savings should be stimulated by the recovery of economic growth, the improvement in the external trade position, and the increased incomes of domestic food producers. As a result of public enterprise reforms and other fiscal measures, public sector savings are projected to turn from negative in 1993 to about 10 percent of GDP in 1997; this may be an ambitious target, but it is feasible in view of Congo's prospects for improved cash flow from the development of the Nkossa oil field.

Government strategy focuses on improving public sector efficiency through better public resource management and public enterprise reforms; strengthening production capacity through trade and regulatory reforms and removing impediments to private sector growth; and developing human resources and reducing poverty. Government options are constrained by aggressive labor unions, rigidities in spending, and large debt service obligations. Despite the erosion in their position over the last few years, labor unions still wield enough power to destabilize Congo's politics. In 1995 wages and transfers cannot be easily compressed below their 1994 levels, though they will have to be adjusted further in 1996 and beyond to help establish fiscal equilibrium. Meanwhile, settling salary arrears is at the top of the unions' agenda. Moreover, reform has its own costs, namely the separation and retraining costs related to privatization. Finally, mortgaging of future oil revenues leaves limited cash to cover other large budgetary demands.

External Debt

Poor economic and financial management has resulted in mounting external debt obligations and arrears over the last decade. This has seriously affected Congo's access to public and private financial sources. However,

with the return to peace and the implementation of far-reaching economic reforms by a democratic government, donors made major concessions during 1994 to help Congo reduce the burden of its external debt through rescheduling, consolidation, or debt forgiveness. France canceled arrears of $97 million, the Paris Club rescheduled $1.3 billion, and the London Club agreed to reschedule $439 million. However, Congo did not implement the London Club accord because of the unavailability of fresh money.

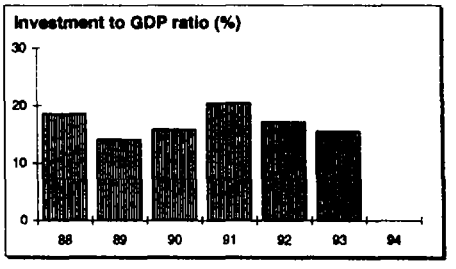
Congo

Population mid-1993 *(millions)* **2.4**
GNP per capita 1993 *(US$)* **950**

Income group: **Lower-middle**
Indebtedness level: **Severely indebted**

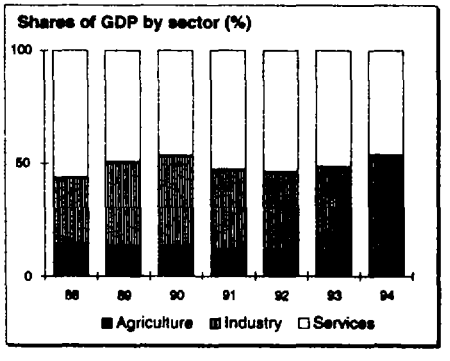
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	30.3	15.9	17.2	15.5	..
Exports of goods and nfs/GDP	56.8	50.2	41.7	43.9	..
Gross domestic savings/GDP	31.1	26.9	18.7	23.3	..
Gross national savings/GDP	18.7	11.9	10.5	8.7	..
Current account balance/GDP	-9.3	-11.3	-14.2	-9.0	-12.9
Interest payments/GDP	6.2	4.3	1.0	0.8	4.8
Total debt/GDP	141.2	176.2	168.3	203.8	313.2
Total debt/exports	248.3	328.2	375.1	425.9	..



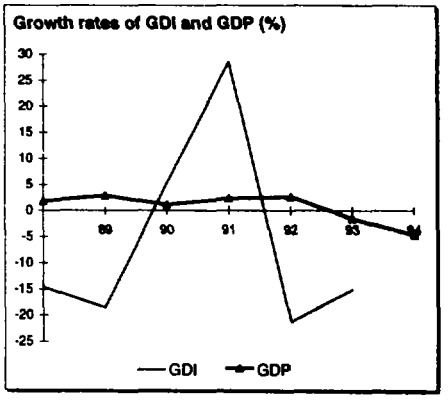
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	7.4	12.9	11.6	10.8	10.2
Industry	53.9	40.6	34.7	37.8	43.7
Manufacturing	5.6	8.3	8.9	9.0	7.3
Services	38.6	46.5	53.7	51.4	46.2
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	5.1	-2.8	3.2	-8.8	3.6
Industry	2.8	3.4	6.5	7.2	-2.7
Manufacturing	2.2	-4.7	-0.9	-3.5	-16.3
Services	-2.5	-2.6	-0.5	-7.1	-8.4
GDP	0.3	-0.1	2.7	-1.5	-4.6



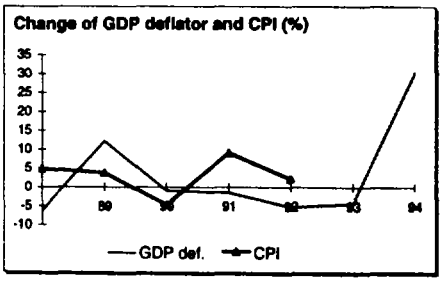
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	52.5	52.9	56.2	53.7	..
General government consumption	16.5	20.1	25.1	23.0	..
Gross domestic investment	30.3	15.9	17.2	15.5	..
Exports of goods and nfs	56.8	50.2	41.7	43.9	..
Imports of goods and nfs	56.0	39.1	40.2	36.1	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	-0.3	*-3.2*	1.8	-16.4	..
General government consumption	-3.6	*-2.2*	-0.4	-14.8	..
Gross domestic investment	-20.4	*-6.7*	-21.2	-15.1	..
Exports of goods and nfs	4.8	*5.7*	9.0	12.6	..
Imports of goods and nfs	-9.2	*-4.1*	-3.2	-17.6	..
Gross national product	0.2	-2.8	5.2	-5.2	-17.2
Gross national income	-2.8	*-4.4*	0.0	-14.8	..



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	5.6	-4.8	2.2	..	..
Wholesale prices	6.6	1.9	1.7	..	..
Implicit GDP deflator	2.5	-0.9	-5.3	-4.3	30.3
Government finance					
(% of GDP)					
Current budget balance	12.2	-2.8	-14.4	-18.6	..
Overall surplus/deficit	-4.8	-7.1	-19.8	-21.6	..



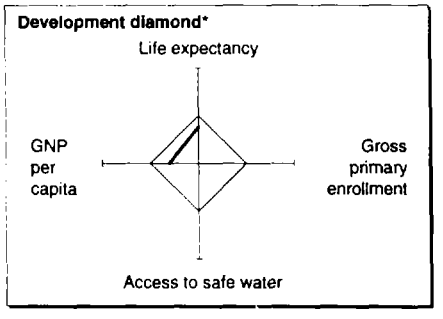
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Congo

POVERTY and SOCIAL

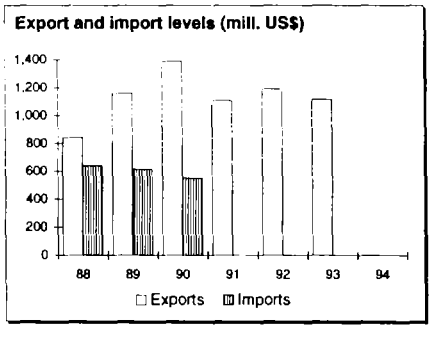
	1985-90	1990-94
(annual growth rates)		
Population	3.0	3.0
Labor force	1.9	2.3

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	51.0
Infant mortality *(per 1,000 live births)*	83.8
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	..
Energy consumption per capita *(kg oil equivalent)*	165.4
Illiteracy *(% of population age 15+)*	43.4
Gross primary enrollment *(% of school-age population)*	..



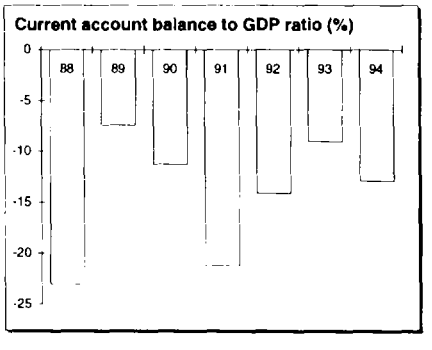
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	1,145	1,389	1,189	1,116	..
Fuel	952	1,076	..	..	..
Timber	60	74	..	..	..
Manufactures	47	34	..	..	..
Total imports (cif)	746	550	..	..	..
Food	30	24	..	..	..
Fuel and energy	18	10	..	..	..
Capital goods	202	197	..	..	..
Export price index *(1987=100)*	97	..	..	..	..
Import price index *(1987=100)*	154	4	..	..	..
Terms of trade *(1987=100)*	63	..	..	..	..
Openness of economy *(trade/GDP,%)*	113	89	82	80	..



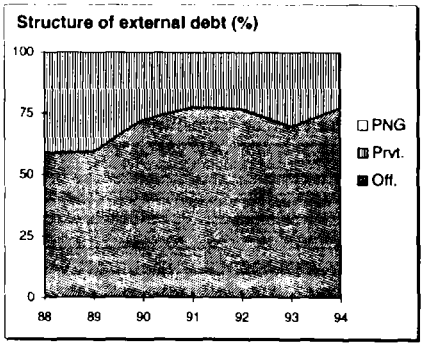
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	1,219	1,494	1,267	1,191	1,608
Imports of goods and nfs	1,156	1,282	1,294	1,098	1,499
Resource balance	64	212	-27	93	109
Net factor income	-228	-465	-304	-258	-303
Net current transfers	-38	-63	-69	-60	-10
Current account balance					
Before official transfers	-202	-316	-400	-225	-204
After official transfers	-161	-250	-355	-197	-204
Long-term capital inflow	207	-675	-250	-101	174
Total other items (net)	-48	1,039	594	568	219
Changes in net reserves	2	-114	1	-1	-3
Memo:					
Reserves excluding gold *(mill. US$)*	4	6	4	1	..
Reserves including gold *(mill. US$)*	8	10	8	6	..
Conversion rate *(local/US$)*	449.3	272.3	264.7	283.2	555.2



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	192.3	278.4	304.5	344.1	..
IMF credit/exports	0.8	0.7	0.4	0.4	..
Short-term debt/exports	55.3	49.0	70.1	81.4	..
Total debt service/exports	34.4	35.3	12.8	10.6	..
GDP ratios					
Long-term debt/GDP	109.3	149.5	136.6	164.7	290.3
IMF credit/GDP	0.5	0.4	0.2	0.2	1.3
Short-term debt/GDP	31.4	26.3	31.5	38.9	21.6
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	59.4	27.6	23.1	30.3	22.7
Official creditors/long-term	40.6	72.4	76.9	69.7	77.3



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Côte d'Ivoire

The Republic of Côte d'Ivoire is a lower-middle-income country, with a 1993 GDP per capita of about $630. Its economy is predominantly agricultural, with about two-thirds of the active population engaged in farming, forestry, and fishing. The agricultural sector, including forestry and agro-industries, accounts for about 40 percent of GDP while generating 70 percent of export revenues in 1994. Exports continue to be dominated by cocoa, coffee, and timber.

Côte d'Ivoire's population has grown 3.8 percent a year since the mid-1970s, reaching about 13.5 million by end-1994. High population growth coupled with economic decline has resulted in a steady fall in living standards. GNP per capita in 1993 was estimated at about $630, compared to well over $1,000 in the early 1980s. Social indicators have also been deteriorating, reflecting the effects of economic crisis and a neglect of basic social services.

The government of Côte d'Ivoire has responded decisively to the lingering economic crisis in the country itself and in the CFA franc zone and joined with the other CFA zone member countries in devaluing the CFA franc 50 percent against the French franc in January 1994.

Economic Developments in the 1980s

Côte d'Ivoire is emerging from thirteen years of unsuccessful internal adjustment that failed to reverse economic decline and reduce growing social and poverty problems. The economic and social crisis started at the beginning of the 1980s when Côte d'Ivoire's macroeconomic imbalances had grown to unsustainable levels, with a budget deficit of about 10 percent of GDP and a current account deficit of about 17 percent of GDP. Côte d'Ivoire started to encounter serious debt-servicing problems as a result of the rapid buildup of external debt during the second half of the 1970s. Trade barriers and price interventions increasingly distorted domestic markets, contributing to inefficient resource allocation, and there was a serious deterioration in public sector management, especially among public enterprises. These problems were in essence an outgrowth of the surge in spending that followed the cocoa and coffee price booms over 1975-77.

Adjustment policies were partially successful up to 1987 in reducing the main internal and external imbalances. The government pursued contractionary fiscal and monetary policies that sharply reduced the budget deficit and inflation. Moreover, the adjustment effort benefited from the depreciation of the French franc and, hence, the CFA franc against the dollar, and from a short-lived recovery of cocoa and coffee prices in the mid-1980s. However, with the renewed decline of those prices on international commodity markets, the government delayed commensurate adjustments in producer prices, and the fiscal deficit again increased to unsustainable levels, reaching 17 percent of GDP in 1989. This sharp increase in the fiscal imbalance also reflected more fundamental problems, including downward expenditure rigidities, especially of salaries and wages, high debt-service obligations, and the real appreciation of the CFA franc as the French franc appreciated against other major currencies.

Côte d'Ivoire's renewed fiscal and balance-of-payment crisis at the end of the 1980s revealed inadequate macroeconomic policies and persisting distortions in the economy, including a trade regime characterized by relatively high tariffs and dispersion levels and a plethora of nontariff barriers. Domestic saving had declined, and there were solvency and liquidity problems in the domestic banking system. Public intervention in agricultural pricing and marketing was combined with lack of incentives to diversify and reduce dependence on a few primary commodities. A generally inefficient and bloated public sector with limited capacity to provide services was evidenced by poor health indicators and low literacy levels.

Recent Economic Developments

In the early 1990s the government undertook a last effort to restore international competitiveness and growth by exclusively relying on internal adjustment measures under a medium-term economic framework supported by the World Bank and IMF. Although the government made progress in cutting the primary deficit in the early

1990s, its failure to effect a real depreciation of the CFA franc with its internal adjustment measures and continued high outlays for public salaries, averaging 12.5 percent of GDP — 60 percent of primary expenditure — over 1990-93, resulted in the program falling short of expectations. With the deepening of the recession in 1993, the primary deficit again increased, reaching 3.5 percent of GDP. Given the government's inability to generate primary surpluses, its efforts to settle domestic and external arrears also faltered; arrears accumulated rapidly and reached the equivalent of 60 percent of GDP by end-1993.

As a result of these macroeconomic difficulties, the government and others in the CFA zone countries devalued the CFA franc 50 percent against the French franc in January 1994. Preliminary results for 1994 suggest that with this parity change and the implementation of fiscal, monetary, and structural adjustment policies, the Ivorian economy has been able to maintain and strengthen its international competitiveness and restore economic growth.

Inflation fell to predevaluation levels eight months after the parity change. During the last quarter of 1994 the monthly inflation rate was 0.3 percent. This was largely achieved by a restrictive wage policy coupled with a limited increase in the money supply. Base wages increased on average only by 10 percent, thereby reducing the government's wage bill from almost 13 percent of GDP in 1993 to 9.5 percent of GDP in 1994. The same policy stance was adopted by the private sector. The government also unblocked on schedule the three-months price freeze on three products it had enacted immediately after the devaluation and raised utility tariffs, including water (15 percent), electricity (20 percent), and public transport (40 percent).

Fiscal policy has been the cornerstone of the stabilization program. The government met its revenue and expenditure targets throughout 1994 and generated its first primary balance surplus in the 1990s. The introduction of a major tax reform (reduction of VAT, petroleum taxes, and import tariffs) in early 1994 helped dampen inflationary pressures but also reduced revenue as a share of GDP and, therefore, required compensatory measures in the form of reintroducing export taxes on coffee and cocoa. Although these export taxes are needed for fiscal reasons, the government is committed to reduce their importance within overall government revenue and pass through the positive effects of the devaluation to farmers — which has become easier in the wake of buoyant international prices for cocoa and coffee. To this end, the government has repeatedly increased the producer price for cocoa and coffee, from CFAF 200 and 180 per kilogram, respectively, before the devaluation to CFAF 315 and 530 per kg for the 1994-95 crop season. Given the continued buoyancy in coffee prices, its producer price was raised to CFAF 630 per kilogram in February 1995.

While the stabilization measures were quickly and fully implemented, the government has been more hesitant in implementing its adjustment program in trade, privatization, and human resources development. Privatization advanced slowly during the year as the privatization law was only adopted in June 1994, as reorganization of the privatization committee caused delays and there were continuing institutional weaknesses. Moreover, the government's social programs, including the many social funds created after the devaluation, were ineffective during 1994, and there is evidence that urban poverty increased. Conversely, the substantial increases in producer prices have attenuated the poverty situation in the rural areas. Progress was, however, made in some key areas, including import tariff reform, reduction of nontariff barriers, and adoption of new labor and investment codes.

Poverty and Social Indicators

The economic decline since 1987 has caused a steady decline in real per capita GDP on the order of 30 percent and a deterioration of social indicators to levels that pose a serious challenge to medium- and long-term development. Recent estimates indicate that more than 60 percent of the population falls below the poverty line, compared to about 30 percent in the mid-1980s.

Although basic services have been protected more in urban areas, the incidence of poverty increased much more rapidly in urban areas than in rural areas. The proportion of urban dwellers in the total number of poor increased from about 20 percent in 1985 to about 30 percent in 1992. This is due in part to a high urbanization rate, rising levels of unemployment, and a reduction in real wages. The extent and trends in rural poverty differ markedly according to region. The situation deteriorated most in the West Forest because of falling cocoa and coffee revenues, especially after 1989, when producer prices of these crops were cut in half. The Savannah, however, is still the poorest region, containing about one-third of all poor.

Budgetary problems before the devaluation seriously constrained efforts to implement human resources development programs. While the share of the government's budget going to education and health was maintained, the government was less successful in reorienting intrasectoral allocations toward primary education and primary health care and reducing the urban bias in social infrastructure. Moreover, prior to the parity change the rising share of salaries within the overall budget left insufficient resources for other inputs such as textbooks and pharmaceuticals, aggravating internal

inefficiencies, and Côte d'Ivoire's health and education systems deteriorated.

Health care now reaches about 30 percent of the population and is clearly unsatisfactory in the face of high population pressures and new epidemiological challenges such as the rapid spread of AIDS. Infant mortality has only slowly fallen, affecting 91 out of 1,000 live births in the early 1990s. Immunization levels also compare unfavorably with those of other countries in the region or with similar per capita income.

The education system continues to suffer from low enrollment, low completion rates, high repetition, and inefficient resource allocation. Although the government has made efforts to provide primary education for its youth, it currently covers only an estimated 70 percent of school-age children. The large majority of children who go to primary school either drop out in the course of the primary cycle or end all formal schooling after primary education, and thereby risk joining the already large number of functional illiterates. Moreover, the absence of educational alternatives for those who cannot continue beyond primary education, and growing unemployment, has led many children to repeat several times their final year in primary school. A lack of programs to maintain school facilities and provide affordable textbooks has also adversely affected the education system. As a result, 46 percent of the population above the age of fifteen remains illiterate, while female illiteracy hovers around 60 percent.

The Structural Adjustment Program for 1995-97

After the CFAF devaluation the government reformulated its economic program and spelled out its new stabilization and structural adjustment program in a policy framework paper that is being updated to cover the 1995-97 period. The new program aims at increasing real GDP growth to annual rates of 6.5 percent and higher beginning in 1995; generating sustained and increasing primary budget surpluses; strengthening external competitiveness through trade, price, and regulatory reforms; intensifying human resource development and increasing efforts to alleviate poverty; and protecting Côte d'Ivoire's natural resource base.

Maintaining macroeconomic stability will be critical to attaining these objectives, and the government is exerting strict budgetary discipline to generate the sustained primary surpluses needed to cover an increasing portion of the public debt. It introduced a series of tax measures in January 1994, including a VAT reform, revision of petroleum taxation, and the reduction of import tariffs. It also increased the civil service base wage by a nominal 10 percent, which translated into a substantial decline in the real wage bill. After the initial pass-through of the devaluation, a restrictive monetary and fiscal policy reduced inflation to traditionally low levels and restored positive real interest rates. Financial sector liquidity will be strengthened by government efforts to clear its internal arrears to banks and suppliers by 1996.

The government is seeking to increase public-sector efficiency and promote private development by bringing to the point of sale the thirty-five remaining enterprises slated for privatization during 1995-97. In 1995 the government intends to privatize about ten public enterprises, and is implementing programs to strengthen the institutional capacities of the finance, health, and education ministries, and further public efficiency gains are expected to be made through a decentralization policy and an urban investment strategy.

Trade liberalization will build on the progress achieved during the last four years. The average weighted tariff on taxable imports declined from 32 percent in 1989 to about 24 percent in 1993. Concomitantly with the devaluation, the government announced a new tariff reform that cut import tariffs an average of 20 percent and created a structure in the range of 0 to 35 percent. Government will examine the possibility of further reduction in tariffs and their dispersion levels, while, at the same time, broadening the base through elimination of exonerations. Most nontariff barriers will be phased out by end-1995, with the exception of those identified in a restrictive list, and the number of products subject to price regulation will be reduced.

Côte d'Ivoire's agricultural policy aims at expanding and diversifying production through a flexible producer price policy, improvements in the incentive system, and reducing public intervention. To remove the restrictive regulatory practices in the transport sector, the government plans to deregulate domestic and maritime transport, privatize the management of the rail system, and increase private sector participation in road maintenance.

In an effort to reduce the natural growth rate of the population, which is among the highest in Africa, the government is reorganizing and strengthening its family planning services program. It also aims to increase literacy levels through increasing the net enrollment rate in basic education. Although the government has to operate within the confines of a tight budget, it intends to increase expenditures for these priority programs mainly through the reallocation of resources.

Reducing poverty will remain a severe challenge to the government. In the short term, the devaluation will have a more favorable effect on the rural than the urban poor. This has prompted a differentiated government response. While farmers suffered greatly from declining incomes prior to January 1994, the devaluation provided them with a much-needed income boost through increased producer prices, the most efficient and direct

means to alleviate poverty in rural areas in the short term. As the real wage decline was more pronounced and unemployment has been increasing in urban areas, the government has been increasing resources to municipalities to start labor-intensive public works and rehabilitation programs that will stimulate employment.

Environment

Protecting the environment and managing the resource base has become a major objective for sustainable development in Côte d'Ivoire. The government is confronted with serious environmental problems, including deforestation, loss of biodiversity, soil degradation, water pollution, and management of industrial and domestic waste. The government adopted a National Environment Action Plan in December 1994 and intends to draw up an environmental code and a general forestry plan.

Medium-Term Prospects

Côte d'Ivoire's economic growth potential has not been realized because of a combination of an unsustainable macroeconomic situation emanating from large fiscal deficits, an external debt overhang depressing national savings, distortions in trade and price policies, and a human resources development program that paid insufficient attention to basic social services. The devaluation triggered a promising start to overcoming these impediments to growth, and the government's reform agenda aims at growth rates of 6.5 percent and higher over 1995-2000. Based on Côte d'Ivoire's track record on structural reform, progress will likely be more gradual, slower, and uneven despite the government's commitment to structural change. With gradual but steady structural reform, Côte d'Ivoire should be able to accelerate growth to about 5 percent rather than to the higher growth rates anticipated by the government.

Continued fiscal reform will be critical to the adjustment effort. While government revenue will remain at about 21 percent of GDP, the government will reduce its reliance on export taxation of cocoa and coffee to stimulate growth in the agricultural sector. Its share of total revenue will steadily fall over the next few years. To implement this reduction, the government hopes to benefit from additional revenue from new oil and gas production and a broader tax base, and aims to control primary expenditures, particularly the public wage bill. The economic recovery will be led by agriculture and is expected to stimulate demand for labor and reduce poverty, especially in rural areas. Nontraditional agricultural exports should be a source of dynamism, growing by about 12 percent annually during the second half of the 1990s.

External Debt

Côte d'Ivoire's financing requirements will remain substantial over the next few years. Debt service will be reduced by 50 percent through enhanced Toronto terms on Paris Club debt service and additional debt relief in the form of debt forgiveness by France, Canada, Switzerland, and Germany. The government is seeking an agreement with its commercial bank creditors, whose debt has not been serviced since May 1987, to reduce future debt service to levels consistent with the country's debt-servicing capacity. On the basis of actual and anticipated debt relief, Côte d'Ivoire's debt profile is expected to improve over the next few years.

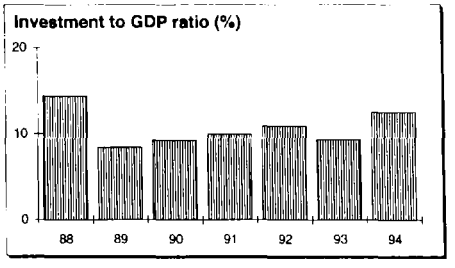
Côte d'Ivoire

Population mid-1993 *(millions)* **13.3**
GNP per capita 1993 *(US$)* **630**

Income group: **Low**
Indebtedness level: **Severely indebted**

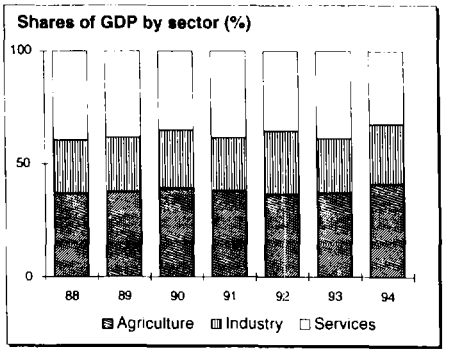
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	12.6	9.3	10.9	9.3	12.5
Exports of goods and nfs/GDP	45.6	34.7	33.5	34.2	47.5
Gross domestic savings/GDP	25.8	14.6	16.4	16.2	25.3
Gross national savings/GDP	12.9	-1.4	-2.2	-3.0	1.7
Current account balance/GDP	0.6	-14.0	-13.1	-12.0	-10.8
Interest payments/GDP	9.3	4.5	4.0	4.0	4.7
Total debt/GDP	138.0	167.9	177.6	205.3	283.2
Total debt/exports	301.3	461.9	526.3	596.3	598.9



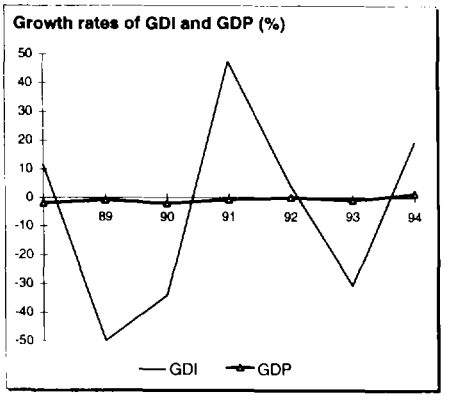
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	29.8	39.4	36.7	37.3	41.3
Industry	23.4	25.6	27.9	24.0	26.4
Manufacturing	15.2	..	..	21.7	25.9
Services	46.8	35.0	35.4	38.7	32.3
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	4.2	-0.9	-3.9	2.3	2.1
Industry	0.6	0.2	0.6	2.4	6.7
Manufacturing	..	..	..	..	..
Services	-5.1	0.1	4.9	-3.0	-9.0
GDP	-0.9	-0.2	0.0	-1.1	1.3



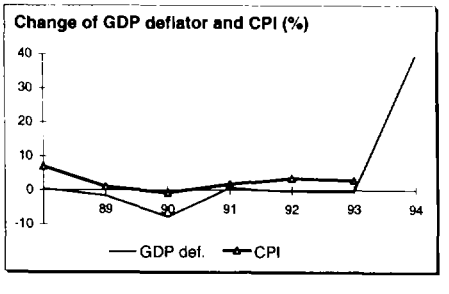
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	60.3	67.3	65.9	63.4	57.9
General government consumption	13.9	18.1	17.8	20.4	16.8
Gross domestic investment	12.6	9.3	10.9	9.3	12.5
Exports of goods and nfs	45.6	34.7	33.5	34.2	47.5
Imports of goods and nfs	32.5	29.3	28.0	27.3	34.7
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	-0.3	-1.0	-0.5	-0.7	1.3
General government consumption	-0.6	-3.6	-4.3	-0.1	-10.1
Gross domestic investment	-12.6	1.4	4.0	-30.8	19.3
Exports of goods and nfs	-1.3	-1.2	3.2	-1.7	-3.1
Imports of goods and nfs	-3.1	-5.8	2.7	-9.8	-10.2
Gross national product	-1.5	-1.4	-0.1	-1.7	-3.3
Gross national income	-4.1	-1.8	1.6	-3.2	-2.9



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	1.8	-0.8	3.5	2.8	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	4.1	-7.9	-0.3	-0.4	39.4
Government finance					
(% of GDP)					
Current budget balance	8.9	-10.0	-9.5	-13.9	-7.4
Overall surplus/deficit	3.2	-12.8	-12.9	-16.7	-12.0



Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

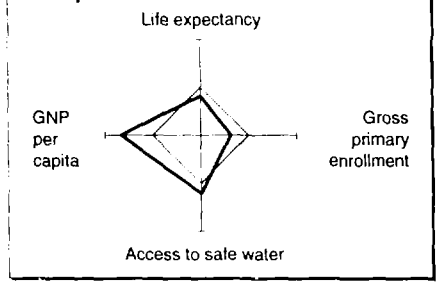
Côte d'Ivoire

POVERTY and SOCIAL

	1985-90	1990-94
(annual growth rates)		
Population	3.7	3.5
Labor force	2.5	2.5

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	50.7
Infant mortality *(per 1,000 live births)*	91.2
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	82.8
Energy consumption per capita *(kg oil equivalent)*	109.1
Illiteracy *(% of population age 15+)*	46.2
Gross primary enrollment *(% of school-age population)*	69.0

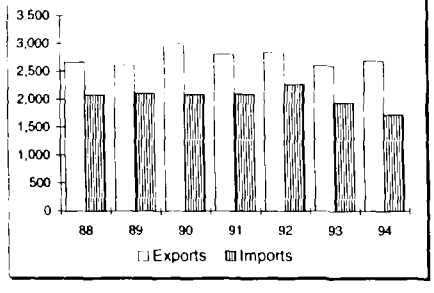
Development diamond*



TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	2,761	3,003	2,841	2,605	2,689
Cocoa	887	675	968	831	945
Coffee	618	241	373	206	250
Manufactures	728	1,204	683	573	571
Total imports (cif)	1,721	2,095	2,271	1,948	1,732
Food	273	466	377	431	338
Fuel and energy	379	569	511	430	418
Capital goods	446	419	531	332	349
Export price index *(1987=100)*	..	..	..	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP,%)*	78	64	62	62	82

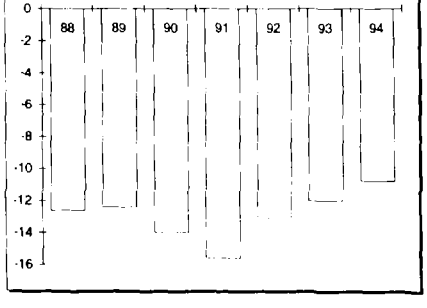
Export and import levels (mill. US$)



BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	3,160	3,431	3,398	3,193	3,176
Imports of goods and nfs	2,173	2,900	2,838	2,548	2,323
Resource balance	987	531	560	644	853
Net factor income	-666	-1,415	-1,504	-1,447	-1,267
Net current transfers	-279	-501	-379	-320	-312
Current account balance					
Before official transfers	42	-1,386	-1,323	-1,122	-726
After official transfers	68	-1,294	-1,162	-1,023	-674
Long-term capital inflow	242	-1,324	-154	-195	162
Total other items (net)	-276	2,514	1,408	1,234	941
Changes in net reserves	-34	105	-92	-16	-430
Memo:					
Reserves excluding gold *(mill. US$)*	5	4	7	2	..
Reserves including gold *(mill. US$)*	19	21	22	20	..
Conversion rate *(local/US$)*	449.3	272.3	264.7	283.2	555.2

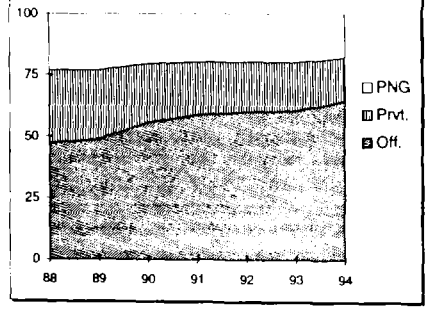
Current account balance to GDP ratio (%)



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	257.4	349.4	388.7	410.1	458.0
IMF credit/exports	20.8	12.0	7.8	6.8	4.7
Short-term debt/exports	23.0	100.5	129.8	179.4	136.1
Total debt service/exports	35.0	34.2	32.3	30.0	28.9
GDP ratios					
Long-term debt/GDP	118.0	127.0	131.2	141.2	216.6
IMF credit/GDP	9.5	4.4	2.6	2.3	2.2
Short-term debt/GDP	10.6	36.5	43.8	61.8	64.4
Long-term debt ratios					
Private nonguaranteed/long-term	29.9	20.3	19.7	19.9	17.9
Public and publicly guaranteed					
Private creditors/long-term	37.8	24.1	20.3	19.7	17.6
Official creditors/long-term	32.2	55.6	60.1	60.4	64.6

Structure of external debt (%)



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Djibouti

Djibouti became independent in 1977. A small country of only 23,200 square kilometers, it occupies a strategic location at the Horn of Africa. Its GNP per capita was estimated at $780 in 1993, even though living standards and social indicators were closer to lower-income Sub-Saharan African countries. Two-thirds of its 600,000 inhabitants live in the capital city; the rest are mostly nomadic herders.

Poverty and Social Indicators

The majority of Djibouti's population have poor nutritional and health standards. Life expectancy at birth is low at 49 years and infant mortality high at 115 per 1,000. Only 50 percent of urban dwellers have access to safe water, and the rural population suffers from an acute shortage of water. Primary school enrollment is 47 percent of the school-age group, well below the regional average. Recent population growth has been estimated at 5 to 6 percent a year, of which 2 to 3 percent represents an influx of immigrants and refugees from neighboring countries. Some 130,000 refugees and immigrants have arrived from Somalia and Ethiopia since the 1980s, putting heavy pressure on the economy and social institutions.

The country has a fairly liberal trade regime. Its currency, the Djibouti franc, has been pegged to the dollar since 1949 and is freely convertible. The economy is, however, fragile and highly dependent on external assistance to meet structural fiscal and external account deficits. Since independence, savings have been negative. Services account for 76 percent of the GDP at factor cost, and are dominated by activities relating to French military presence and Djibouti's role as a regional transit and business center. The traditional economy is based on subsistence nomadic herding. Agriculture and industry are little developed, owing to the harsh climate, high production costs, and limited natural resources other than fishing and, potentially, geothermal energy. Merchandise exports of local origin are insignificant. Djibouti depends heavily on imported energy, food, and other goods, with imports amounting to 98 percent of GDP. Its economy is also handicapped by a relatively large and inefficient public sector. Poorly performing public enterprises and a bloated civil service increase the cost of doing business, hinder economic development, and put a strain on scarce budgetary resources.

Recent Political Developments

After political and ethnic tensions in November 1991 the government allowed the creation of political parties. A new constitution was approved in a referendum in September 1992. Legislative elections in December 1992 and presidential elections in May 1993 were boycotted, however, by most of the opposition. These uncontested elections led to the reelection of the sitting president and his ruling party representatives. The main opposition group claiming to represent the Afar minority — an estimated 40 percent of population — resumed armed rebellion. In response, the government quadrupled its military forces, and military expenditure rose to 15 to 16 percent of GDP, compared to about 6 percent before 1991. Ethnic tensions remain high, and sporadic fighting continued until mid-1994. A negotiated settlement of the military conflict was agreed to by all parties and formalized in a peace accord signed in December 1994.

Recent Economic Developments

Djibouti's economic performance has been weak since independence. GDP barely kept pace with population growth over 1978-83 and declined by over 1 percent a year from 1984 to 1993. Per capita income has, thus, been halved since independence. The stagnant economy and the influx of refugees have led to acute unemployment. There was a short-lived spurt in military traffic during the Persian Gulf War and increased transshipment of relief aid to Ethiopia and Somalia more recently, but they have had only minimal impact on GDP and employment.

The resource gap has averaged 26 percent of GDP since 1977. After grants, the current account deficit averaged about 11 percent of GDP, most of which, as in the past, was covered by external borrowing. The overall balance of payments was generally in equilibrium until 1991; the onset of internal conflict led to a gap averaging almost 3 percent of GDP over 1991-93. Domestic savings have been consistently negative, over 10 percent of

GDP for 1992 and 1993. After exceeding 22 percent of GDP in the early years after independence, investment has gradually declined and averaged only 15 percent of GDP over 1991-93.

In the late 1980s, despite periodic but short-lived corrective measures, the budget deficit hovered around 9.5 percent of GDP. The public finance situation has deteriorated markedly since 1991 because of the increase in military expenditure. Despite higher taxes (including a 10 percent special tax on wages to finance the war effort), increased tax collection, forced levies on public enterprises, and measures to contain expenditure (including the adoption of a new pay scale and the reduction of civil servants' fringe benefits), the budget deficit on a commitment basis, excluding grants, was estimated at 15.5 percent of GDP in 1992, and 12.2 percent of GDP in 1993. The cash deficit after grants has been financed largely by domestic payment arrears, forcing local enterprises to borrow from the banking system to finance their operations, and putting pressure on the currency.

Medium-Term Prospects

Since late 1994 the government has been preparing a document outlining its proposed economic reform strategy. While the specifics of the economic reform program remain to be finalized, the government's development objectives are to reduce dependence on external budget support, diversify the economy and foster permanent employment opportunities, improve social standards and alleviate poverty, and arrest desertification. The increase in military forces has led to an additional objective of demobilizing and reintegrating military personnel into the economy.

To achieve these objectives the government plans to undertake measures aimed at stabilizing the economy and stimulating private-sector development. In addition, it intends to redefine its role in facilitating development and providing social services and infrastructure, while disengaging from productive activities.

The government's proposed program aims to stabilize the economy by reducing expenditure on emoluments and salaries, demobilization and civil service reform, protecting the social sectors, and increasing revenues through tax measures and better management of public assets; in addition, public sector arrears and other internal debts are to be consolidated and repaid over time.

The proposed program calls for increasing investment selectivity by focusing on infrastructure (port facilities, railroads, telecommunications, and roads), human resource development and social services (education, health, and urban development), and preparing a public investment program.

The draft program also calls for improving economic management by strengthening and reorganizing the Ministry of Finance and the Treasury, and pursuing prudent monetary and credit policies to avoid inflation, and enhancing efficiency and competitiveness by liberalizing trade, prices, the labor and capital markets, and transport services. It calls for a comprehensive private-sector development and export promotion strategy, and privatizing and restructuring public enterprises to minimize their cost to the budget.

The government also intends to continue ongoing initiatives. Human resources are being developed through improved education and vocational training, and the government is investing in urban sites and services to improve the living conditions for the urban poor. A comprehensive health plan has been prepared to address major sector issues, including the provision of family planning services, child immunization programs, and a communicable diseases control program. Wells have been drilled in several areas of the hinterland to provide water to nomads and their herds. Pilot projects seek to arrest desertification.

In spite of the peace accord Djibouti's short-term prospects are difficult. Production is estimated to have contracted by about 3 percent in 1994. The fiscal situation will remain fragile, and the government may further increase its domestic arrears in 1995, thus fueling the vicious circle of delayed tax payments, lower investment, and a deteriorating net credit situation of domestic enterprises. Credit to government is expected to increase. The external balances are also expected to face increased difficulties in 1995, forcing further import compression, a contraction of official reserves, and putting pressure on the currency.

Medium-term development prospects depend on the sustainability of the political settlement of ethnic strife, and the government's success in stabilizing the macroeconomic situation and implementing policies that stimulate the private sector, improve access to basic social services, and reduce demographic pressure. The immediate challenge facing Djibouti is to create a stable macroeconomic environment capable of preserving its credibility and attractiveness as a regional financial and transshipment center. These measures, as well as steps to enhance the capacity and the efficiency of the port, other transport facilities, and other business and financial services, would allow Djibouti to expand its regional role as a service center and benefit from eventual growth in the external trade of its neighbors.

In the short term, a modest economic recovery is feasible, but GDP growth is expected to remain below demographic growth in fiscal 1996. Growth will be generated mainly by the recovery of transport and trade activities. Given strong stabilization measures and external financing mobilized only on concessional terms

and used productively, a viable fiscal situation, balance of payments, and adequate external reserves could be restored in the medium term.

External Debt

External medium- and long-term debt outstanding and disbursed rose from $96 million (28 percent of GDP) in 1985 to $193 million (41 percent of GDP) at the end of 1993. Most of the external borrowing has been on highly concessional terms. Debt-service payments on medium- and long-term debt represented only about 2 percent of the exports of locally produced goods and services in 1993. At end-1993, the government's short-term debt stood at $33 million, equivalent to about 7 percent of GDP.

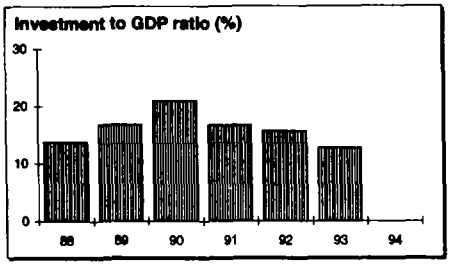
Djibouti

Population mid-1993 *(thousands)* **557**
GNP per capita 1993 *(US$)* **780**

Income group: **Lower-middle**
Indebtedness level: **Less indebted**

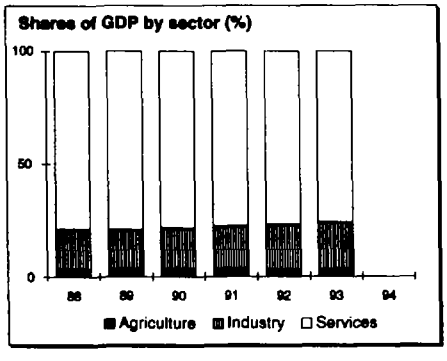
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	23.4	21.0	15.7	12.8	..
Exports of goods and nfs/GDP	43.9	69.7	71.2	71.4	..
Gross domestic savings/GDP	-3.9	-8.5	-10.7	-14.1	..
Gross national savings/GDP	-4.1	-4.9	-12.6	-14.3	..
Current account balance/GDP	-27.5	-25.9	-28.2	-27.0	..
Interest payments/GDP	0.6	0.5	0.5	0.4	..
Total debt/GDP	41.9	49.4	41.6	48.5	..
Total debt/exports	87.3	66.5	55.8	63.0	..



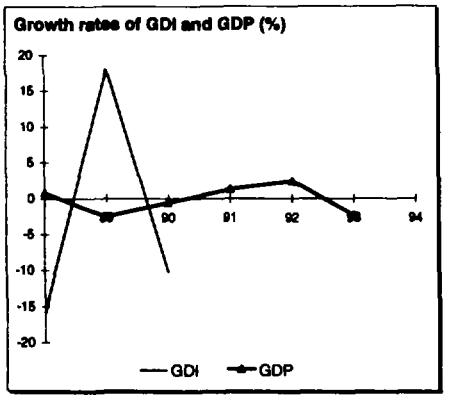
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	2.7	2.9	2.7	2.8	..
Industry	18.1	18.5	20.4	21.2	..
Manufacturing	4.0	4.8	4.4	4.5	..
Services	79.3	78.6	76.9	76.0	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	*-2.2*	..	..	..	..
Industry	*0.8*	..	..	..	..
Manufacturing	*2.2*	..	..	..	..
Services	*-2.0*	..	..	..	..
GDP	-1.6	*0.6*	2.4	-2.3	..



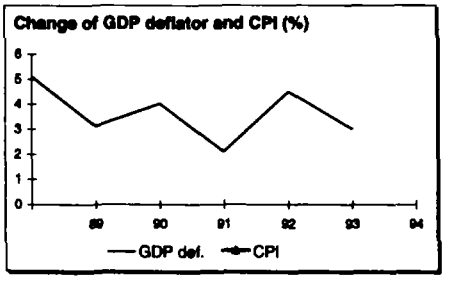
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	65.4	76.7	71.9	76.4	..
General government consumption	38.5	31.8	38.8	37.7	..
Gross domestic investment	23.4	21.0	15.7	12.8	..
Exports of goods and nfs	43.9	69.7	71.2	71.4	..
Imports of goods and nfs	71.2	99.2	97.6	98.3	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	..	..	..	..	..
General government consumption	..	..	..	..	..
Gross domestic investment	-4.5	..	..	..	..
Exports of goods and nfs	2.6	..	..	..	..
Imports of goods and nfs	-0.1	..	..	..	..
Gross national product	*-2.8*	..	..	..	..
Gross national income	*-3.4*	..	..	..	..



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	2.1	..	..	..	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	3.7	4.0	4.5	3.0	..
Government finance					
(% of GDP)					
Current budget balance	1.5	-4.5	-11.5	-8.8	..
Overall surplus/deficit	..	..	..	..	..

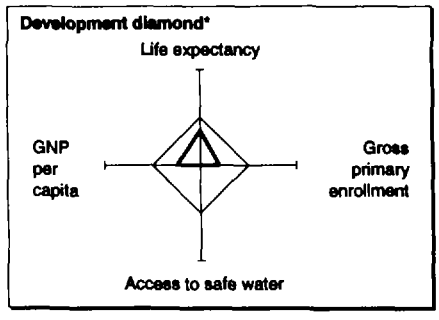


Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

POVERTY and SOCIAL

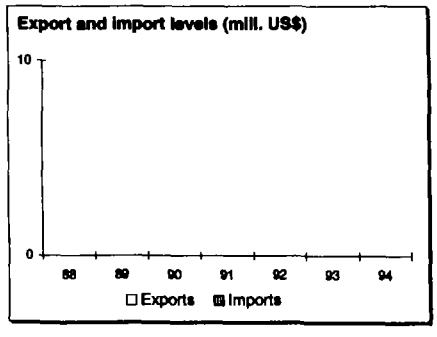
	1985-90	1990-94
(annual growth rates)		
Population	5.6	2.5
Labor force	..	..

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	48.7
Infant mortality *(per 1,000 live births)*	113.2
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	..
Energy consumption per capita *(kg oil equivalent)*	974.9
Illiteracy *(% of population age 15+)*	..
Gross primary enrollment *(% of school-age population)*	41.0



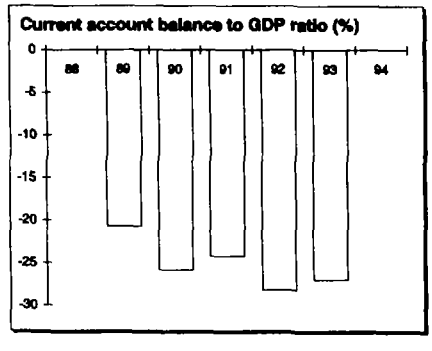
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	..	..	..	..	..
Other food	..	..	..	..	..
n.a.	..	..	..	..	..
Manufactures	..	..	..	..	..
Total imports (cif)	..	..	..	..	..
Food	..	..	..	..	..
Fuel and energy	..	..	..	..	..
Capital goods	..	..	..	..	..
Export price index *(1987=100)*	..	..	..	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP,%)*	115	169	169	170	..



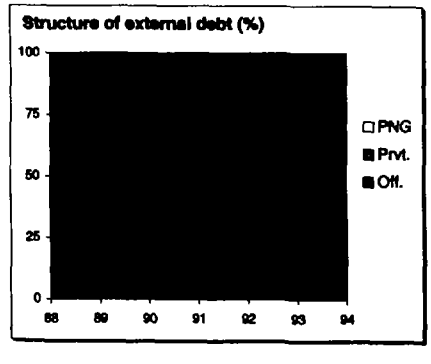
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	151	291	329	332	..
Imports of goods and nfs	245	414	451	457	..
Resource balance	-94	-123	-122	-125	..
Net factor income	12	18	-6	2	..
Net current transfers	-12	-3	-3	-2	..
Current account balance					
Before official transfers	-95	-108	-130	-126	..
After official transfers	-42	-57	-53	-53	..
Long-term capital inflow	32	61	38	45	..
Total other items (net)	16	30	-2	0	..
Changes in net reserves	-6	-35	17	8	..
Memo:					
Reserves excluding gold *(mill. US$)*	51	94	83	75	..
Reserves including gold *(mill. US$)*	51	94	83	75	..
Conversion rate *(local/US$)*	177.7	177.7	177.7	177.7	..



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	58.2	50.4	51.3	53.9	..
IMF credit/exports	0.0	0.0	0.0	0.0	..
Short-term debt/exports	29.1	16.2	4.5	9.2	..
Total debt service/exports	4.3	4.6	3.2	2.7	..
GDP ratios					
Long-term debt/GDP	27.9	37.4	38.3	41.4	..
IMF credit/GDP	0.0	0.0	0.0	0.0	..
Short-term debt/GDP	14.0	12.0	3.4	7.1	..
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	6.8	0.1	0.1	0.1	0.0
Official creditors/long-term	93.2	99.9	99.9	99.9	100.0



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Equatorial Guinea

Equatorial Guinea's land area is 28,000 square kilometers and its population about 400,000. It comprises Rio Muni on mainland Africa, with about 80 percent of the population, and the island of Bioko — with the national capital, Malabo — and other small islands in the Gulf of Guinea. Communications and administration are difficult. The 1993 GDP per capita is estimated at $420.

The period from independence in 1968 to 1979 was one of disastrous mismanagement and brutal repression in Equatorial Guinea. It is not known how many people perished but it is clear that thousands were killed and many thousands more fled. The health and education services closed down and physical infrastructure deteriorated badly. By the time the government was overthrown, almost all economic activity other than subsistence cropping had come to a halt. The present regime has made progress on human rights issues, but poor governance remains a serious obstacle to economic and social development.

In 1985 Equatorial Guinea joined the Franc Zone, adopted the CFA franc as its currency, and took significant stabilization measures as the price of membership. It became a member of the Bank of Central African States and joined the Central African States Customs Union. The results were short-lived. Deteriorating terms of trade for its exports widened fiscal and external imbalances and two commercial banks failed, causing a liquidity crisis.

Agriculture, including fishing and forestry, accounts for over 50 percent of GDP and 60 percent of exports. Subsistence agriculture predominates, but cocoa production on Bioko and timber extraction in Rio Muni provide monetary income, foreign exchange, and government revenues. Construction, industry, and manufacturing account for about 30 percent of GDP, services for 20 percent. The offshore Alba oil field came on line in January 1992 and exports began in April 1992. Further oil exploration is going on and there may be other offshore reserves.

The 1988 Reform Program

In 1988 the government adopted its first medium-term structural adjustment program, supported by the IMF. This included measures to strengthen budgetary management and domestic resource mobilization, rationalize the public investment program, and restructure public enterprises and the banking system. The program soon went off track because of excessive extrabudgetary expenditure.

During 1990 and 1991, the government took steps to bring the program back on track: public utilities management and performance were improved, and progress was made in eliminating price controls. In 1993 the medium-term structural adjustment program was extended through 1995 with support from an IMF structural adjustment facility. It called for strengthening the budgetary position, continuing tight monetary and credit policies, accelerating financial sector reform, and removing economic constraints and distortions.

Recent Economic Developments

Overall growth has been disappointing. The annual average rate of growth of nonoil real GDP was only 1.5 percent between 1985 and 1993, well below population growth of 2.4 percent. The overall fiscal deficit (on a commitment basis and excluding foreign-financed investment) increased from 3.2 percent of GDP in 1992 to 8.2 percent in 1993, although it has since been somewhat reduced. Government expenditure and net lending increased from 24 percent of GDP in 1992 to 29 percent in 1993, exceeding the program target by 10 percentage points. The resulting balance of payments deficit was financed through an accumulation of external arrears.

After the January 1994 CFA franc devaluation the IMF approved a second structural adjustment arrangement for Equatorial Guinea. Performance for the first half of 1994 was mixed: quantitative benchmarks on the overall fiscal balance and nonaccumulation of external payments arrears were not observed, and budgetary problems were expected to persist into the third quarter. Customs receipts were off target, in part because of continued granting of ad hoc exemptions. However, progress was made in implementing the customs union's tariff and tax reform, establishing a new price structure for petroleum products, and other structural reforms required under the program. Substantial internal and

external arrears had accumulated by September, and total outstanding medium- and long-term debt was over 150 percent of GDP; of this about $215 million (or 139 percent of GDP) was external debt, owed mostly to the Paris Club. The overall 1994 balance of payments deficit on a commitment basis is estimated at 1.8 percent of GDP, and the current account deficit (excluding official transfers) over 10 percent.

Despite its poor economic performance, Equatorial Guinea has considerable potential. The country is well endowed with arable land. Bioko, about 7 percent of its land area, has fertile volcanic soils and a climate that suits it for most tropical crops. Enough fruit and vegetables are already produced to meet domestic consumption, and there is potential for exports of tropical fruits and horticultural crops. There is also potential for ecotourism. Bioko and Annobon have many rare species and rare forms of certain species. These resources are, however, under severe pressure; several unique subspecies of primates are threatened and others have already disappeared.

Oil was discovered in 1984 and production started in January 1992. Proven reserves are estimated at 535 billion cubic feet of gas and 28 million barrels of condensate. Current production is about 6,500 barrels of oil a day, and about 80 million cubic feet of gas is flared but could be tapped for power generation. Production from the Alba field is expected to peak at about 8,000 barrels a day in 1995, at which time oil revenue will begin to accrue to the government. Cumulative government receipts from 1995 to 2000 are expected to be between $60 and $90 million. There is evidence of further significant offshore deposits of oil in an area disputed by Nigeria.

Equatorial Guinea's main constraints to growth are a lack of human capital (illiteracy is 50 percent for men and 60 percent for women) eroded by neglect and abuse, and poor governance, which has been a problem since independence, and which creates an environment unfavorable to private sector development. There is still pervasive political interference in productive and commercial activities. The courts do not function. The power of the executive, in practice the president, is unchecked, and a small circle of powerful individuals have full discretion in managing the country. The population, knowing it has no recourse, is cautious and acquiescent. Farmers and other economic operators have no incentive to diversify or expand beyond subsistence needs.

Foreign investment could play a key role in development. Its 1994-96 plan calls for private-sector incentives, including changes in the Investment Law of 1992, and for new land tenure legislation to clarify private property rights, but these measures were never implemented and major impediments to private sector development remain. Since land tenure rights remain poorly defined and private contracts are unenforceable, the financial sector remains undeveloped. The single commercial bank now operating in Equatorial Guinea has little incentive to lend; those with access to credit tend to relend it to small farmers at high interest that reflects the default risk. Wide-scale introduction of modern techniques through credit financing is thus effectively precluded. Attempts to establish agricultural credit agencies in 1985 and 1994 failed.

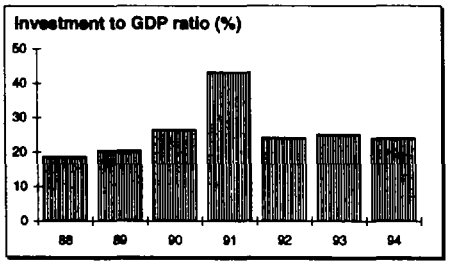
Equatorial Guinea

Population mid-1993 *(thousands)* **379**
GNP per capita 1993 *(US$)* **420**

Income group: **Low**
Indebtedness level: **Severely indebted**

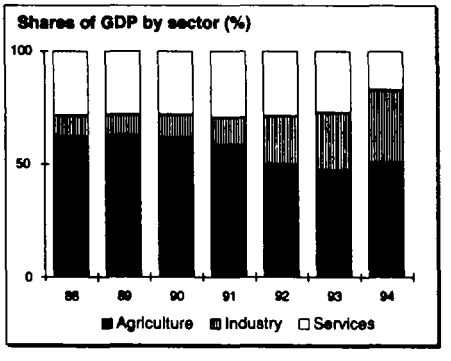
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	6.2	26.6	24.2	25.1	24.0
Exports of goods and nfs/GDP	30.2	32.1	36.6	39.8	55.1
Gross domestic savings/GDP	-3.2	-10.9	2.8	7.5	17.1
Gross national savings/GDP	-7.5	-9.6	-6.0	0.3	6.4
Current account balance/GDP	-13.9	-36.0	-34.2	-26.8	-11.9
Interest payments/GDP	0.6	0.4	0.6	0.4	0.6
Total debt/GDP	166.2	182.4	160.8	171.2	139.2
Total debt/exports	551.3	530.8	435.7	435.5	375.4



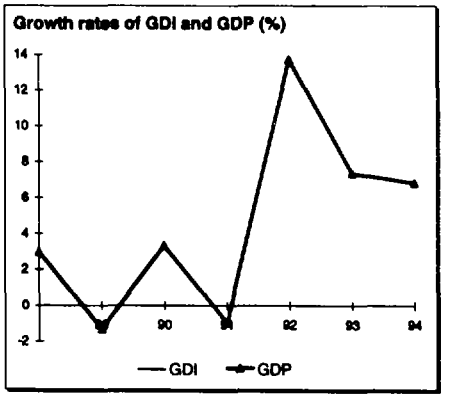
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	68.9	61.5	49.6	47.2	50.4
Industry	8.7	10.6	21.9	25.8	32.7
Manufacturing	8.7	10.6	11.4	11.3	14.1
Services	22.5	27.8	28.5	27.0	16.9
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	*0.8*	-1.5	-3.9	0.1	5.3
Industry	*9.9*	10.2	-0.2	11.3	21.1
Manufacturing	*9.9*	10.2	-0.2	11.3	21.1
Services	*6.1*	10.9	12.5	7.2	18.1
GDP	*2.4*	7.4	13.7	7.3	6.8



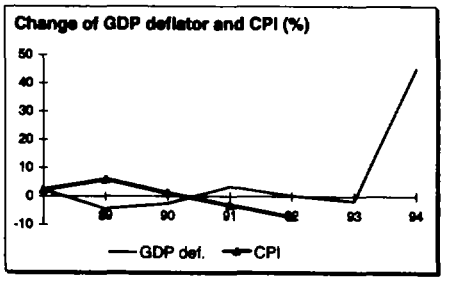
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	75.5	71.3	62.0	51.1	72.6
General government consumption	27.7	39.6	35.2	41.4	10.3
Gross domestic investment	6.2	26.6	24.2	25.1	24.0
Exports of goods and nfs	30.2	32.1	36.6	39.8	55.1
Imports of goods and nfs	39.6	69.5	58.0	57.4	62.0
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	..	..	..	..	..
General government consumption	..	..	..	..	..
Gross domestic investment	..	..	..	..	..
Exports of goods and nfs	..	..	..	..	..
Imports of goods and nfs	..	..	..	..	..
Gross national product	*2.5*	6.9	12.7	7.8	5.0
Gross national income	..	..	..	..	..



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	..	1.1	-7.2	..	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	..	-2.6	0.3	-1.7	45.0
Government finance					
(% of GDP)					
Current budget balance	3.5	0.8	-1.2	-3.3	-1.9
Overall surplus/deficit	-2.5	-2.6	-3.2	-8.2	-3.6

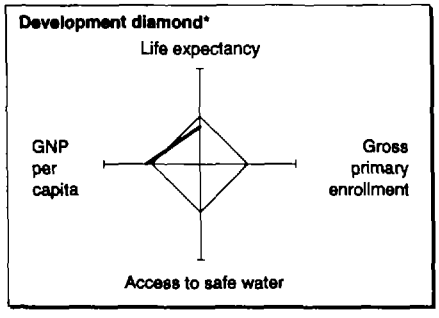


Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

POVERTY and SOCIAL

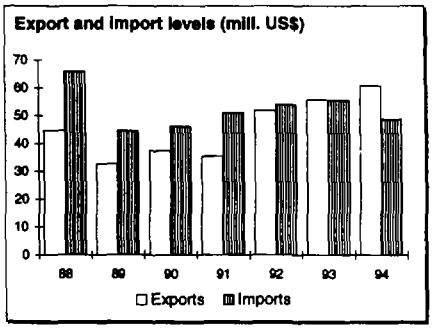
	1985-90	1990-94
(annual growth rates)		
Population	2.4	*2.5*
Labor force	1.4	1.8

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	48.4
Infant mortality *(per 1,000 live births)*	115.0
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	..
Energy consumption per capita *(kg oil equivalent)*	81.8
Illiteracy *(% of population age 15+)*	49.8
Gross primary enrollment *(% of school-age population)*	..



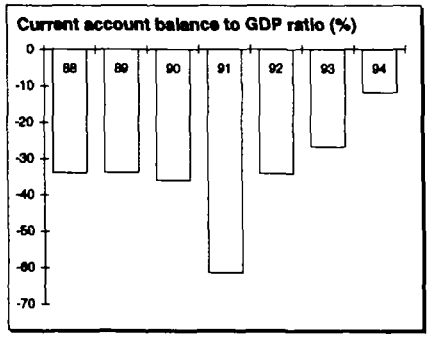
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	24	38	52	56	61
Cocoa	15	6	5	3	4
Timber	6	1	0	0	0
Manufactures	..	..	..	..	..
Total imports (cif)	31	46	54	56	49
Food	4	..	..	..	..
Fuel and energy	4	7	7	5	4
Capital goods	12	14	16	..	..
Export price index *(1987=100)*	71	94	173	186	172
Import price index *(1987=100)*	76	113	156	161	..
Terms of trade *(1987=100)*	93	82	111	116	..
Openness of economy *(trade/GDP,%)*	70	102	95	97	117



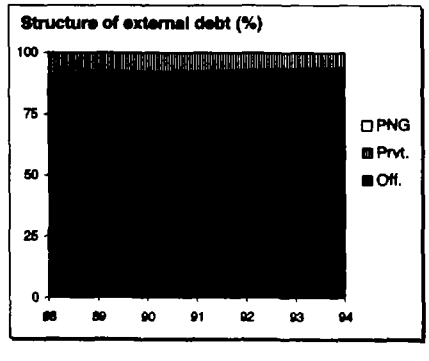
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	24	43	59	62	66
Imports of goods and nfs	32	92	98	89	74
Resource balance	-8	-49	-40	-27	-8
Net factor income	-4	-6	-11	-12	-11
Net current transfers	1	8	-4	-3	-2
Current account balance					
Before official transfers	-11	-48	-54	-42	-21
After official transfers	-4	-12	1	-7	3
Long-term capital inflow	8	12	0	-5	-23
Total other items (net)	-9	1	-9	9	21
Changes in net reserves	4	-1	7	2	-1
Memo:					
Reserves excluding gold *(mill. US$)*	3	1	13	0	..
Reserves including gold *(mill. US$)*	3	1	13	0	..
Conversion rate *(local/US$)*	449.3	272.3	264.7	283.2	385.3



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	470.4	460.8	365.9	355.4	351.2
IMF credit/exports	53.3	12.8	21.5	26.6	24.2
Short-term debt/exports	27.5	57.3	48.3	53.5	0.0
Total debt service/exports	42.5	11.2	5.3	1.9	7.6
GDP ratios					
Long-term debt/GDP	141.9	158.3	135.1	139.7	130.2
IMF credit/GDP	16.1	4.4	7.9	10.5	9.0
Short-term debt/GDP	8.3	19.7	17.8	21.0	0.0
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	14.3	8.5	7.5	6.9	6.5
Official creditors/long-term	85.6	91.5	92.5	93.1	93.5



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Eritrea

Eritrea's struggle for independence, one of the longest in Africa's history, lasted for three decades. It began in earnest in 1962 following the annexation of Eritrea by Ethiopia, and intensified after the military coup in Ethiopia in 1974. The Eritrean Peoples' Liberation Front liberated Eritrea in May 1991. This coincided with the Ethiopian People's Revolutionary Democratic Front's victory over the military regime in Ethiopia. Following an internationally supervised referendum, Eritrea formally gained its independence in May 1993. Ethiopia was among the first nations to recognize Eritrea's independence.

Eritrea is strategically located in the northeastern part of Africa with two major ports — Massawa and Asseb — on the Red Sea. For centuries, Massawa has been a center of trade between Africa and the Middle East. Because of its location and its openness to trade, Eritrea has a wealth of experience in entrepreneurship and commerce. In this sense, human resources are probably Eritrea's greatest asset. Eritrea is a land of varied topography, climate and rainfall, and it lies in the Sahelian rainfall zone. Its natural resources are considered to be meager. There is potential to extract petroleum from the Red Sea, and the economic viability of these reserves is being examined. The country's coastal waters are believed to be potentially among the most productive fishing grounds in the Red Sea. Eritrea's population is estimated to be in the range of 3 to 3.5 million, including nearly half a million refugees in Sudan.

Eritrea's long struggle for independence has left a deep impact in terms of building a strong sense of nation and community structure, a strong sense of ownership of national development programs and eagerness to build its capacity to manage policies, and a pragmatic and flexible approach toward economic development based on building solutions that take advantage of its well-educated and successful diaspora and openness to ideas from outside.

The long struggle for independence has also helped to create attachment to democratic and participatory processes. After the war ended in 1991, elections were held at village, district, and provincial levels throughout the country. A national referendum on independence took place in April 1993. In March 1994 the National Assembly established a constitutional commission, which is responsible for seeking the views of the Eritrean population, at home and abroad, on the future structure of the government. The commission will prepare a draft constitution in two years for ratification. This will be followed by multiparty national elections.

Recent Economic Developments

In the 1930s Eritrea was a successful exporting nation. During World War II, when imports from Europe to the East African markets were disrupted, Eritrean industries stepped in to supply these markets. However, the economy began deteriorating in the 1950s owing to lack of investment. This was compounded further in 1974, when the military regime in Ethiopia adopted a command economy and nationalized most private assets, including those in Eritrea. The adverse impact of centrally planned policies was further worsened in the last two decades by the intensification of war, recurrent droughts and famines, and lack of access to foreign exchange to import essential inputs.

At the time of its liberation in 1991, Eritrea inherited an economy that was neglected, isolated, and severely damaged by war. Enterprises were nonoperational or working at extremely low capacity, food production had declined, and infrastructure including roads, ports, and power supply — well developed by African standards in the 1940s — had been badly damaged. In addition, Eritrea inherited institutions and policies that were either not appropriate for running a peacetime liberal economy or inadequate. Economic and social data on Eritrea are weak and scanty; preliminary data show that real GDP contracted by nearly 1 percent a year over fiscal years 1985-90; it shrank further by some 7 percent in fiscal 1991, the final year of the conflict.

Since winning its freedom, Eritrea has demonstrated a strong dedication to the goals of nation building, economic reconstruction and recovery, and support for introducing a pragmatic and liberal market economy. In a relatively short period it has made significant progress in restructuring institutions, establishing key elements of a functioning government, and eliminating a number of restrictive policies. In May 1991 the government,

with its own meager resources, launched a Recovery and Rehabilitation Program aimed at jump-starting the economy. The program includes an Economic and Financial Management Program aimed at supporting the government's program on capacity building.

The government's Recovery and Rehabilitation Program and the return to peace have helped to improve Eritrea's economic performance. After contracting by 1.5 percent in 1993, largely because of a drought that reduced agricultural output, the economy rebounded strongly in 1994 and is estimated to have grown by 9.4 percent in real terms. Industrial production and service activities have continued to expand primarily because of an increase in exports, a growing private small-scale sector, the partial rehabilitation of a few large-scale industrial enterprises, a strong rebound in construction activity, and a good harvest. Initial progress has also been made in rehabilitating parts of the infrastructure, although the requirements for ports, roads, and power generation continue to be substantial.

The Eritrean authorities recently defined their vision of macroeconomic policy reforms and sectoral strategies to facilitate economic recovery. The reforms include measures aimed at facilitating the transition to a market-based economy. To translate their vision into reality, the government recognizes the need for increased analytical work and improvements in institution building and implementing capacity.

Eritrea has followed prudent financial policies. A sharp rise in government revenue, reflecting improvements in customs and tax administration and the resurgence in economic activity, helped contain the fiscal deficit (after grants) at 3 percent of GDP in 1992. Despite a further large increase in revenue in 1993, the overall fiscal deficit (after grants) rose to about 6 percent of GDP. Even though there were significant efforts to limit expenditure overruns, the large deficit reflected an increase in expenditure, which was related to the demobilization of 25,000 ex-combatants, higher rehabilitation and maintenance costs, and a significant rise in capital outlays. The overall fiscal deficit (after grants) is estimated to have risen to about 13 percent of GDP in 1994, as a result of a deceleration in revenue growth and a further sharp increase in government expenditure. The fiscal deficit has been financed largely by a drawdown of government deposits with the banking system, and to a lesser extent by the disbursement of external loans. The annual inflation rate has been kept low at around 7 to 9 percent. This has been, in part, achieved because of the rapid supply response of the economy to the government's recovery and reform program.

As part of reforming and strengthening of the fiscal system, the government has eliminated a number of restrictive tax features. Tax rates have been lowered, and this, accompanied by increased compliance, helped to raise tax revenue collected from around 15 percent of GDP in 1992 to an estimated 23 percent of GDP in 1994. A start has also been made toward restructuring public expenditure. Recurrent expenditures on social services — including education, health, labor, and social welfare, and relief and rehabilitation — are estimated to have increased from 3 percent of GDP in 1992 to more than 4 percent of GDP in 1994. Public investment is estimated to have increased from 5 percent of GDP in 1992 to over 19 percent in 1994.

Since Eritrea uses the Ethiopian birr as its legal tender, it does not have an independent monetary policy. Although Eritrea inherited an obsolete monetary and financial system, it has made progress in reviving this sector. Confidence in Eritrea's domestic banking sector is reflected by the high level of liquidity of the Commercial Bank of Eritrea. A new Central Bank Act and financial sector legislation are at an advanced stage of preparation. The government has clarified that private banks, both domestic and foreign, are permitted to operate in Eritrea. Given Eritrea's location, the long-run objective of the government is to make Asmara into a regional financial and services center.

The government has pursued a pragmatic exchange rate policy. Since August 1993 official buying and selling exchange rates have been based on the marginal auction rate established in the biweekly foreign exchange auctions in Addis Ababa in Ethiopia. Eritrea does not have access to these auctions. Eritrea buys foreign exchange remitted by its nonresident citizens at Br 7.05 to the dollar, compared to a rate of Br 7.2-7.4 in the parallel market, which, while illegal, is not actively repressed by the authorities. Apart from their tolerant attitude toward the parallel market, the Eritrean authorities are also liberal with respect to the import and export of domestic currency notes, foreign currency declaration requirements for travelers, and foreign investment approvals.

Eritrea's trade balance with Ethiopia and the rest of the world was in deficit through the first half of 1994. While exports increased sharply from an extremely narrow base, import demand related mainly to relief and reconstruction was high. However, the external current account deficit was contained, because of inflows of private remittances.

Institutional strengthening and streamlining have advanced rapidly. At independence, Eritrea inherited institutions geared for managing a command economy. In addition, the country had little experience in administering or governing a nation, since as a province of Ethiopia it had little autonomy or policymaking authority. These problems were further compounded by the fact that many educated and skilled Eritreans had left the country under the previous regimes. The government has taken a large number of measures to rationalize institutions,

including merging the Departments of Economic Development and Cooperation and Finance into a Ministry of Finance and Development. Streamlining of the civil service — comprising some 15,000 employees — has begun, and the shortage of skilled staff in key positions is also being addressed.

Eritrea has begun to introduce sectoral policy reforms. Trade policies are being revised, and a new and simplified import licensing procedure is being introduced. Export taxes have been abolished. In opening up its economy, the government has emphasized that protectionism does not work and that success thrives on risk taking. A new Investment Law has been prepared and will open all sectors to private investment; it allows 100 percent foreign ownership — the old code required 51 percent local ownership in certain sectors — and guarantees investments against nationalization, confiscation, or other noncommercial risks. Many special tax holidays would be eliminated or simplified and made more transparent, and approval time from the receipt of applications has been reduced to a maximum of 10 days from 90 days under the old code. The former labor code, which prohibited hiring of labor by the private sector, is now being revised and private hiring of labor is permitted. Centralized marketing and planning systems have been disbanded, so that most public and private enterprises do not face price and marketing restrictions. Substantial progress has also been made in addressing the land issue. Land tenure in Eritrea has been complex in the past, with different types of tenure in highland and lowland areas. The government has announced that every farmer will now have a lifetime user right, women will have equal access to land, and farmers can officially rent or mortgage their land and enter into sharecropping arrangements. Land will be under government ownership. The government recognizes that user rights to inherit will be critical for sustaining the incentive to invest in land, and mechanisms are being identified to facilitate inheritance of improvements in land productivity.

Poverty and Social Indicators

Decades of lost growth, war damage, and restrictive policies have contributed to a serious deterioration in social and human capital and the quality of life in Eritrea. Although actual GNP per capita figures are not available, it is estimated to be at the lower end of the low-income category. Eritrea's low per capita income is reflected in its poor human capital and social indicators. Life expectancy at birth is estimated to be low at about 46 years compared to 50 years for Sub-Saharan Africa, and the under-five child mortality rate is high at 203 per 1,000 live births, compared to 196 for Sub-Saharan Africa. Immunization is accessible to only 27 percent of the population. In 1993, individual daily caloric intake was estimated at 1,750 kilocalories, equivalent to about 93 percent of minimum requirements; the average for Sub-Saharan Africa is 2,100 kilocalories. Major causes of ill health include preventable diseases such as malaria, diarrhea, and acute respiratory infections. Access to safe drinking water and sanitation is low in most provinces of Eritrea. In rural areas, approximately half of the population obtains water from shallow wells. Poor health and nutrition levels are accompanied by high fertility rates (about 6.8) and an annual population growth rate between 2.7 and 3.0 percent.

The current average adult illiteracy rate is estimated to be 80 percent, with a slightly higher figure for women. There is a large backlog of people, at all ages, with little or no exposure to formal or informal schooling. A large number of schools were damaged during the war. The limited number of schools that survived the war now run several shifts to accommodate the increasing demand for educational services. Significant disparities in social indicators exist across regions. In addition to inheriting a depreciated human capital base, the government also faces the challenging task of reintegrating nearly half a million refugees, demobilizing some 60,000 soldiers, and addressing the needs of nearly 100,000 internally displaced persons.

Eritrea, supported by an increasing group of aid agencies and NGOs, has begun rehabilitating its social infrastructure and providing basic social services. The government has established a Community Rehabilitation Fund — supported by IDA and other donors — to deliver basic social services at the local level to the most needy. The government has developed a policy framework for demobilizing soldiers.

The government's initiatives in the social sectors have been largely built on its success with social programs during the liberation struggle, when the Eritrean Peoples' Liberation Front practiced progressive policies. About a third of the front's fighting forces were female. Attention was paid to reducing the traditional forms of discrimination against women, emphasis was placed on primary education and health care, and reliance was placed on community support systems to protect vulnerable groups from the effects of poverty, war, and natural disasters. The Planned Parenthood Association of Eritrea is supporting family planning activities by organizing training programs and running a family planning clinic. The National Union of Eritrean Women is managing several programs targeting women in general and disadvantaged women in particular. Among these, there are literacy programs in Barka and Gash, and special programs for demobilized women fighters, including vocational training, income-generating activities, and microcredit schemes. In addition to further strengthening social programs, the government hopes to

reduce poverty on a larger scale through its recovery and reform efforts aimed at increasing investment and accelerating broad-based growth to expand employment opportunities.

Challenges Ahead

Although considerable achievements have been made since independence, the government continues to face massive challenges, particularly in rehabilitation, rebuilding institutions, and reintegrating returnees and demobilized ex-combatants into the civilian economy.

A principal challenge is to revive productive investment and employment. The domestic production base is weak and the country is heavily dependent on food assistance. The costs of reconstruction and the need for social safety net expenditures are likely to impose a serious burden on the fiscal accounts. In light of these and other ongoing significant fiscal pressures, one of the immediate concerns is the need to contain expenditure within the available resources. Eritrea's monetary and exchange policies are designed in the context of its reliance on the Ethiopian birr as its currency. The government has declared its intention to introduce a national currency only after its institutional capacity to conduct a national monetary policy is in place.

The government has announced a program for strengthening basic education by improving efficiency of delivery systems and raising educational outcomes. Other objectives include reducing regional and urban-rural imbalances in primary education, increasing female participation in primary education, and increasing the influence of communities over the educational process. Emphasis will be placed on long-term educational financing by encouraging communities to continue to contribute to educational costs.

Eritrea's once well-developed infrastructure is severely damaged, and constitutes a major constraint on recovery and the sustainability of subsequent growth. The government has set alleviating infrastructure bottlenecks as a priority. Roads are in a dilapidated state and the road network requires extensive rehabilitation. Eritrea suffers from chronic electricity shortages, and it is estimated that 30 to 50 percent of output in commercial and industrial sectors is potentially lost owing to electricity shortages. Eritrea's two ports, Massawa and Asseb, along with the road infrastructure, were damaged by the war and have suffered from a lack of maintenance. The port of Massawa, which serves as the major port for import-export of Eritrean cargo, as well as for an increasing volume of traffic for Ethiopia and Sudan, has suffered substantial damage. Asseb's port is operating at its capacity. A port master plan is under preparation. The government's strategy for ports is to improve their capacity and performance through a combination of rehabilitation, provision of equipment, and institutional reforms and improvements in management efficiency through increased autonomy and accountability.

Agriculture is critical to the livelihood of the 70 to 80 percent of the population that depends on the production of crops, livestock, and fisheries for income and employment. Given the present low agricultural productivity, there is good potential for expanding agricultural production in the short run through a combination of intensified agriculture and extending the amount of land under cultivation. The government has completed a review of the agricultural sector and related environmental issues and drawn up an action plan for developing the sector that advocates strengthening the institutional and technical base for agricultural development, improving the information base on the availability of water and other natural resources, and continuing pre-investment studies, while forging ahead with directly productive investments. In the livestock and animal sector, increased returns could be obtained from improving animal health, introducing intensive production systems for milk and poultry production, and developing new markets for sheep, goats, camels, and cattle in the Middle East.

Environment and Natural Resources

The main environmental issues in Eritrea relate to the degradation of its land, forestry, and water resources. In rural areas, loss of vegetative cover, (particularly in the highlands), an exceptionally high rate of deforestation — the percentage of land covered by forests in Eritrea is thought to have dropped from about 30 percent in the 1920s to 2 percent today — soil erosion, and loss of soil fertility have led to declining agricultural productivity, the drying up of springs, abandonment of farm lands, and serious shortages of fuelwood and animal fodder. Eritrea also possesses extraordinary marine resources that need to be managed in a way that complements the sustainable development objectives of the government.

The government has drawn up a national environment management plan for Eritrea that has been endorsed by a ministerial council on the environment. The plan was an outcome of extensive discussions with a wide group of people at the national, regional, and local levels. Twenty-one regional workshops provided a forum for consulting people at the community level on their most pressing environmental issues, identifying locally derived means of addressing these issues, and actively engaging communities in formulating local and regional action programs. The plan proposes to continue this process of dialogue at the local level in regular

consultations through the "Eritrea People's Forum on the Environment."

Medium-Term Prospects

Eritrea's external position will continue to be extremely weak over the medium term. A large trading account deficit is expected to persist; export earnings should expand considerably, but imports are also expected to increase sharply in line with investment and reconstruction requirements. In view of the projected large trade deficit and uncertainties relating to private remittances, the overall balance of payments position is likely to remain precarious. Consequently, Eritrea's immense relief and reconstruction imports will need to be financed largely on concessional terms.

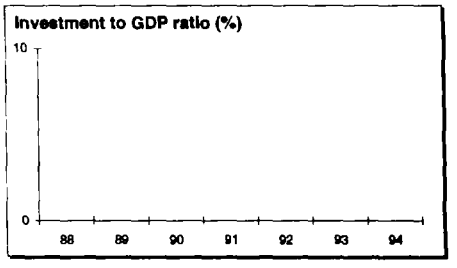
Eritrea

Population mid-1993 *(millions)* ..
GNP per capita 1993 *(US$)* ..

Income group: **Low**
Indebtedness level: **Not classified**

KEY RATIOS

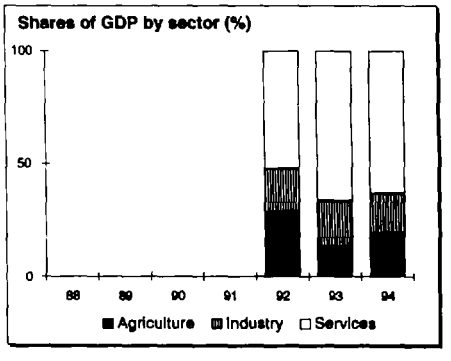
	1985	1990	1992	1993	1994
Gross domestic investment/GDP	..	..	..	..	..
Exports of goods and nfs/GDP	..	..	..	..	..
Gross domestic savings/GDP	..	..	..	..	..
Gross national savings/GDP	..	..	..	..	..
Current account balance/GDP	..	..	-8.7	5.8	..
Interest payments/GDP	..	..	..	..	..
Total debt/GDP	..	..	..	..	..
Total debt/exports	..	..	..	..	..



GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	..	..	28.5	13.1	19.0
Industry	..	..	19.3	20.7	18.0
Manufacturing	..	..	8.7	9.5	8.4
Services	..	..	52.2	66.2	63.0

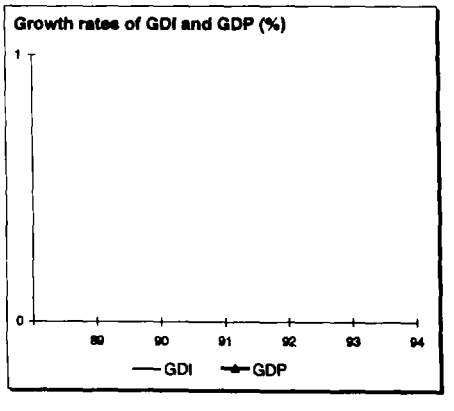
	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Agriculture	..	..	..	..	..
Industry	..	..	..	..	..
Manufacturing	..	..	..	..	..
Services	..	..	..	..	..
GDP	..	..	..	..	..



GDP: EXPENDITURE

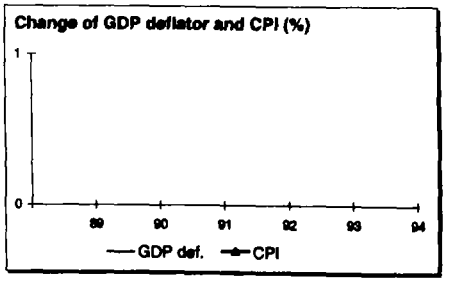
	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	..	..	..	..	..
General government consumption	..	..	..	..	..
Gross domestic investment	..	..	..	..	..
Exports of goods and nfs	..	..	..	..	..
Imports of goods and nfs	..	..	..	..	..

	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Private consumption	..	..	..	..	..
General government consumption	..	..	..	..	..
Gross domestic investment	..	..	..	..	..
Exports of goods and nfs	..	..	..	..	..
Imports of goods and nfs	..	..	..	..	..
Gross national product	..	..	..	..	..
Gross national income	..	..	..	..	..



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	..	..	..	..	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	..	..	..	..	..
Government finance					
(% of GDP)					
Current budget balance	..	..	-4.1	-8.0	..
Overall surplus/deficit	..	..	-8.7	-24.0	..



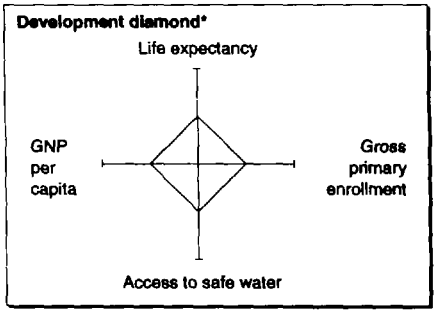
Note: Estimates for Eritrea are subject to more than the usual range of uncertainty and should be regarded as very preliminary.

Eritrea

POVERTY and SOCIAL

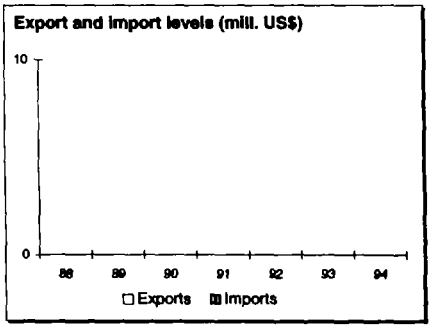
	1985-90	1990-94
(annual growth rates)		
Population	..	..
Labor force	..	..

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	..
Infant mortality *(per 1,000 live births)*	..
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	..
Energy consumption per capita *(kg oil equivalent)*	..
Illiteracy *(% of population age 15+)*	..
Gross primary enrollment *(% of school-age population)*	..



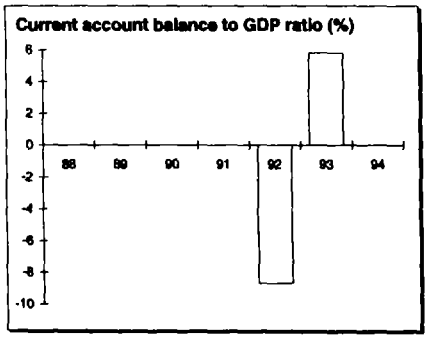
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	..	..	..	..	..
n.a.	..	..	..	..	..
n.a.	..	..	..	..	..
Manufactures	..	..	..	..	..
Total imports (cif)	..	..	..	..	..
Food	..	..	..	..	..
Fuel and energy	..	..	..	..	..
Capital goods	..	..	..	..	..
Export price index *(1987=100)*	..	..	..	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP, %)*	..	..	..	..	..



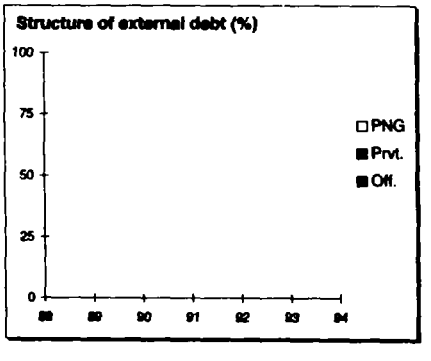
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	..	..	88	139	..
Imports of goods and nfs	..	..	331	313	..
Resource balance	..	..	-243	-174	..
Net factor income	..	..	0	0	..
Net current transfers	..	..	181	203	262
Current account balance					
Before official transfers	..	..	-62	28	-12
After official transfers	..	..	105	98	91
Long-term capital inflow	..	..	0	0	21
Total other items (net)	..	..	92	37	0
Changes in net reserves	..	..	-197	-135	-112
Memo:					
Reserves excluding gold *(mill. US$)*	..	..	..	..	..
Reserves including gold *(mill. US$)*	..	..	..	..	..
Conversion rate *(local/US$)*	..	..	2.8	5.2	..



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	..	..	..	..	..
IMF credit/exports	..	..	..	..	..
Short-term debt/exports	..	..	..	..	..
Total debt service/exports	..	..	..	..	..
GDP ratios					
Long-term debt/GDP	..	..	..	..	..
IMF credit/GDP	..	..	..	..	..
Short-term debt/GDP	..	..	..	..	..
Long-term debt ratios					
Private nonguaranteed/long-term	..	..	..	..	..
Public and publicly guaranteed					
Private creditors/long-term	..	..	..	..	..
Official creditors/long-term	..	..	..	..	..



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Ethiopia

In May 1991, after a long and devastating civil war, the military regime was ousted by a coalition led by the Ethiopian People's Revolutionary Democratic Front, and the transitional government of Ethiopia started the process of restoring peace and stability for the first time in nearly two decades. A referendum in Eritrea voted overwhelmingly for independence, declared in May 1993.

A Constituent Assembly, elected through popular vote in the spring of 1994, approved the Constitution of the Federal Democratic Republic of Ethiopia in December 1994. The new constitution has three important features. First, it provides a framework for establishing a decentralized democratic federal system with a bicameral legislature. Both houses jointly elect the president, who is the head of state, while the lower house elects the prime minister, who is the head of government. Second, it provides for the right of self-determination and even secession by any region. Third, it guarantees equal political, economic, and social rights for all, with specific reference to women. National elections are scheduled in May 1995.

Recent Economic and Social Developments

The military dictatorship that ruled Ethiopia for nearly two decades dismantled most of the private sector and imposed a centrally planned economy. These policies, exacerbated by the siphoning of resources for the war effort, left the Ethiopian economy in a shambles. The main economic objectives of the transitional government when it came to power in 1991 were to stabilize and jump-start the economy. Good progress has been made in stabilization, particularly in lowering the rate of inflation through prudent monetary policy. The economy has responded favorably to the change in policy direction, and to the injection of resources provided by donors. GDP bounced back after a sharp drop in the last two years of the civil war, growing by 12.3 percent in fiscal 1993. In fiscal 1994, agriculture production declined by 5.3 percent, because of droughts, erratic rains, and pest infestations, but this decline was more than offset by strong performance in the industrial and services sectors, which grew by 7.6 and 9.6 percent, respectively, and GDP grew by 1.3 percent.

Macroeconomic management was mixed in fiscal 1994. The overall fiscal deficit (including grants) increased from 7.1 percent of GDP in fiscal 1993 to 10.2 percent of GDP in fiscal 1994 because of a sharp increase in expenditures, from 23.2 to 30.8 percent of GDP. Revenues (excluding grants) also rose, from 11.9 to 13.7 percent of GDP. While part of the increased deficit was financed externally, domestic bank financing reached 2.6 percent of GDP, compared to a target of less than 1 percent.

The structure of expenditures and taxation has improved substantially in recent years. Public expenditures have been sharply reoriented from military spending to the social sectors and infrastructure. In addition, budgetary allocations for operations and maintenance have been increased. The government introduced income and sales tax reforms, improved the management of counterpart funds, and completed its first public expenditure review.

The foreign exchange auction system, established in May 1993, has functioned effectively and grown significantly in volume. Following the 140 percent devaluation of the birr in October 1992, the gap between the auction has been and parallel rates has been narrowed to less than 10 percent and the negative import list for the auction gradually reduced. The exchange rate, based on the auction rate, depreciated by over 30 percent in real terms during fiscal 1994. The trade deficit narrowed somewhat, but the current account deficit remained fairly constant at 3.4 percent of GDP including official transfers (10.2 percent excluding official transfers). Gross official reserves had risen to about seven months of imports by December 1994.

Macroeconomic management is made more difficult by the surge in international coffee prices. It is now projected that coffee revenues will more than double this fiscal year. If measures are not taken to prevent these foreign exchange inflows from being translated into rapid monetary expansion, they could exacerbate inflationary pressures and result in a real appreciation of the exchange rate. This may have already started to happen, as the annual average inflation rate reached 7.6 percent in 1994 (17.1 percent on an end-period basis), compared with an average of below 3 percent in fiscal 1994. The

government is considering policy measures to prevent these negative trends, in particular tightening fiscal and monetary policies.

The government has implemented several important economic measures over the past two years. All export taxes, except on coffee, have been eliminated, and license fees have been reduced for coffee exporters. All retail prices, except petroleum and pharmaceuticals, have been decontrolled. Maximum import duties were lowered from 200 to 80 percent. One-stop investment offices were opened in the past year at the central government level and in some regions. Domestic private participation in freight forwarding and clearing has been allowed, and the domestic private sector can now engage in banking activities. The availability of foreign exchange for business, education, and medical travelers has been increased and the need for clearance from the tax authorities for foreign travel eliminated. The coffee marketing parastatal's monopoly status has been abolished by allowing private-sector coffee marketing. Implementation of the new land leasing policy has started, with the first urban land auction conducted in January 1995. While the transitional government has made important strides in reversing the negative policies of the past, constraints to future growth remain. In the productive sectors, a key goal is the creation of competitive markets.

Poverty and Social Indicators

With an estimated GDP per capita of $100 a year, Ethiopia is one of the poorest countries in the world. Over half the population, which is growing at over 3 percent a year, suffers from chronic food insecurity. Ethiopia has some of the worst social indicators in Africa, with an infant mortality rate of 122 per 1,000 live births, maternal mortality of 700 per 100,000 live births, and a mortality rate of over 20 percent for children under five. Primary school enrollment is only 25 percent, and even lower for girls. More than half the population has no health facilities within ten kilometers. Only about 17 percent of the total population, and less than 12 percent of the rural population, has access to safe potable water. Almost 40 percent of urban dwellers and most of the rural population have no sanitation facilities.

While reducing this massive structural poverty is a long-term endeavor, the transitional government has already taken important steps to ameliorate many of the more urgent problems. The government has established social safety nets to reintegrate displaced people and demobilized soldiers into their communities, and provide training and employment for the disabled and orphans. A social rehabilitation fund has been launched to support income generation and community efforts to improve essential infrastructure and social assets. In addition, following recently formulated sector strategies, resources have been shifted substantially toward providing basic social and economic services, and away from military uses. Budget allocations for education increased from 7 percent in fiscal 1989 to 13 percent in fiscal 1994, allocations for health increased from 3 percent to 7 percent, and allocations for roads increased from 3 percent to 11 percent during the same period. The government has also developed detailed strategies for overall poverty reduction, population management, women, education, health, and environment. The new constitution guarantees the rights of women to own, manage, transfer, and inherit properties, including access to, and transfer of, land. Moreover, the constitution protects women from customs that have damaged women mentally and physically over generations.

The government has launched an important move toward regionalization, which is transferring significant autonomy and responsibility to regional administrations. This is a major departure from the highly centralistic regimes that ruled Ethiopia for generations, and is designed to respond to the aspirations of various ethnic groups for a larger degree of control over their own affairs.

Continuing Reform

The transitional government set out its priorities for the next phase of reforms in the October 1994 third policy framework paper. In the fiscal area, measures to be taken to increase revenues include reducing tax rates, broadening the tax base, simplifying tax brackets, and increasing taxpayer compliance. In the area of monetary and financial policy, positive real interest rates are to be maintained and the central bank is expected to increase the range of minimum deposit and maximum lending rates. The trade regime is to be further liberalized, with lower tariff rates and fewer import duty exemptions. The government also plans to review and amend the legal and regulatory framework to remove impediments to private-sector activities, and the recently established privatization agency will develop a plan and timetable for public enterprises to be divested and define the modalities of privatization (sales, leases, and management contracts). Emphasis will also be placed on selling government-owned houses to the private sector and compensating the previous owners of nationalized houses.

Key policy reforms in agriculture are expected to include liquidating or divesting state farms and phasing out the subsidy on fertilizer prices, with a view to eventual full deregulation. The government is seeking financing to implement a recently completed national conservation strategy, and has drafted a national energy policy and strategy. The government is preparing a road

sector plan that includes expanding the rural road network and ensuring adequate maintenance and upgrading of existing roads.

Expenditures on basic education and health are expected to increase further. Legal restrictions on family planning will be removed, and actions are to be taken to remove legal and administrative constraints on women's access to credit, land-use rights, inputs, and services.

Key Sectoral Issues and Policies

Agriculture accounts for about 55 percent of GDP (at factor cost), 60 percent of merchandise exports, and 80 percent of employment, and will remain the major contributor to economic growth in the medium term. The potential for expanding output is large if actions are taken to expand irrigation, improve inputs supply, correct price incentives, strengthen research and extension systems, and rehabilitate infrastructure. Higher output can help reduce the chronic food deficit, boost exports, and stimulate growth in the agroprocessing industry and related services. Agriculture growth stagnated at 0.6 percent in the 1970s and 1980s, mainly because of devastating droughts and pest infestations, land loss due to environmental degradation, poor infrastructure, a legacy of disrupted agricultural production caused by civil conflict, and inappropriate policies. The sector has responded positively to reforms, which include the freedom to hire farm labor and decontrol of agricultural marketing. The government's long-term development strategy is based on agriculture-led industrialization that predicates using agriculture as a primary stimulus to generate employment and income for the poor, and as the springboard for developing other sectors. Agricultural production is to be increased by improving productivity on smallholder farms and encouraging large-scale private commercial farms, especially in the lowlands.

Despite considerable progress in liberalizing agriculture and taking measures to mitigate the impact of drought, a structural food deficit is projected to last into the next century. The need to ensure adequate food supplies is a heavy burden on the central and regional authorities and highlights the urgency of accelerated agriculture development and food-security planning. A key concern of the Ethiopian authorities is to reduce the rural population's vulnerability to famine. Food security is to be pursued through a concentrated effort to increase the productivity of smallholder agriculture.

Industry accounts for only 10 percent of GDP, and exports of manufactured products are only about one-fourth of merchandise exports. The main factor contributing to the past poor performance in the sector was excessive regulation, including severe restrictions on domestic and foreign private investment and a policy environment biased against exports that isolated Ethiopian industry from international competition. Good initial progress has been made in encouraging private sector development.

Ethiopia's road transport system cannot support an efficient and market-based production and distribution system. Its road density is one of the lowest in Africa. Nearly three-quarters of farms are more than half-a-day's walk from all-weather roads. About 65 percent of the road network is in poor condition, largely as a result of inadequate maintenance, the effects of war, and heavy vehicle overloading. Deregulation of the transportation system and liberalization of freight tariff rates has begun, and the government is preparing a road sector strategy aimed at institutional strengthening, priority road rehabilitation and maintenance, new investment in all classes of roads — including rural access roads — and improving village travel and transport. Ethiopia is one of the countries most poorly supplied with modern energy and is highly dependent on woodfuels. In 1989 its per capita consumption of petroleum and electricity was about one-fourth of that in Kenya. In recent years, the demand for energy, especially electricity, has increased rapidly.

Ethiopia is undertaking a water resource management plan, with assistance from bilateral donors. Provision of water supply and sanitation services is severely deficient. Institutions, both at the center and the regions, lack capacity to plan, operate, and maintain the services. The government's main sector objectives are to rehabilitate and improve the physical infrastructure and operations of the sector, and to build management capacity.

Although Ethiopia has improved its export diversity since 1989, it still relies heavily on coffee exports, which amounted to more than one-half of total commodity exports in fiscal 1994. On the services account, Ethiopian Airlines continues to be an important source of foreign exchange. Recently, merchandise exports have recovered substantially in response to devaluation of the exchange rate and more liberalized incentives. Moreover, the recent sharp increase in world coffee prices holds good prospects for significantly increased export earnings this coming year; exports will be further enhanced by recent signs of export diversification in horticultural products, sesame, and haricot beans.

Environment

Land degradation caused by inappropriate forest clearance, soil surface exposure, and overgrazing stands out as the most severe environmental problem in Ethiopia today. It is estimated that nutrient loss and soil erosion result in forgone agricultural production of close to 600,000 tons of grain per year, equivalent to 90 percent of Ethiopia's structural food deficit in 1993. Degradation and lack of adequate water resources have also

severely affected crop and livestock production, human health, and industrial and commercial processes. Urban degradation in the form of poor sanitation, inadequate solid waste management and drainage, and to a lesser extent industrial pollution is also becoming increasingly problematic. The government has recently completed a forestry action plan, which together with the national conservation strategy completed earlier constitutes the national environmental action plan. This plan sets out a comprehensive framework for addressing environmental problems across every sector and lays the basis for sustainable economic growth in the future. The newly established National Environmental Protection Agency will have primary responsibility for setting standards and enforcing environmental legislation, while national and regional program coordination committees are expected to be the main vehicles for ensuring overall coordination, policy direction, and monitoring. The government is also preparing a biodiversity strategy, which will enable Ethiopia to meet its commitments under the terms of the UN Convention on Biological Diversity.

External Debt

Ethiopia's stock of external debt more than tripled over 1982-92. A rapidly widening current account deficit during this period was financed largely through official transfers (mostly from relief assistance) and external loans (mostly multilateral and former Eastern Bloc countries). By June 1992 arrears to creditors reached $716 million — including commercial defense credits but excluding official defense credits by the former Soviet Union. Since then, Ethiopia has made significant progress in improving its external debt situation and creditworthiness by obtaining debt relief of at least $673 million as a result of negotiations with the Paris Club in December 1992. This reduced Ethiopia's debt service ratio from 82 percent in fiscal 1992 to 49 percent in fiscal 1994. The government is trying to secure comparable debt relief from other bilateral official creditors, and a debt buy-back operation, scheduled for completion in fiscal 1995, is expected to retire a large portion of Ethiopia's commercial debt. Public external borrowing on nonconcessional terms is now limited to trade-related credits of less than one year.

Medium-Term Prospects

Given continuing reforms, Ethiopia's real GDP is expected to grow about 6 percent for fiscal years 1995-97. The annual budget deficit before grants is projected to be about 13 percent of GDP over this period. This is largely due to the need to increase operations and maintenance spending and to rehabilitate (and selectively expand) infrastructure. Part of imports will continue to support reconstruction of the war-torn economy. Growth prospects for exports are optimistic in the next few years, because of expected increases in coffee export receipts.

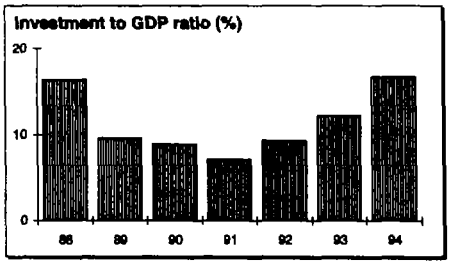
Ethiopia

Population mid-1993 *(millions)* **51.9**
GNP per capita 1993 *(US$)* **100**

Income group: **Low**
Indebtedness level: **Severely indebted**

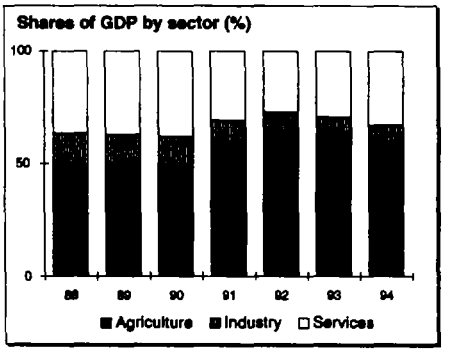
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	9.0	8.9	9.3	12.2	16.7
Exports of goods and nfs/GDP	8.2	7.8	4.6	..	12.3
Gross domestic savings/GDP	1.0	4.3	3.0	3.5	4.4
Gross national savings/GDP	3.4	6.1	9.4	9.9	10.8
Current account balance/GDP	..	..	..	..	..
Interest payments/GDP	..	..	..	..	..
Total debt/GDP	..	..	..	..	..
Total debt/exports	285.4	444.6	562.7	621.3	896.5



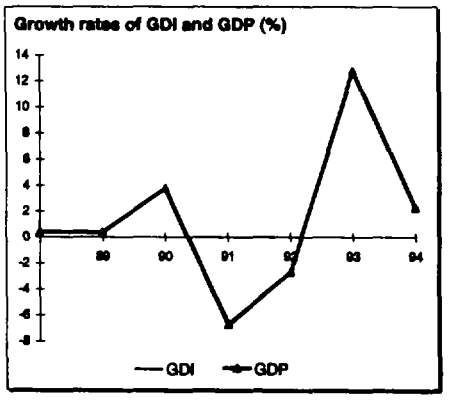
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	53.3	49.3	64.4	60.5	57.0
Industry	12.8	12.7	8.4	10.3	10.1
Manufacturing	4.9	4.9	2.2	3.8	3.3
Services	33.9	38.0	27.1	29.2	32.9
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	6.3	-0.4	-4.6	6.4	-6.5
Industry	0.2	-3.2	-17.5	27.1	1.7
Manufacturing	4.1	1.1	-9.6	51.9	7.1
Services	5.7	6.6	4.9	18.1	13.4
GDP	5.0	1.9	-2.7	12.8	2.3



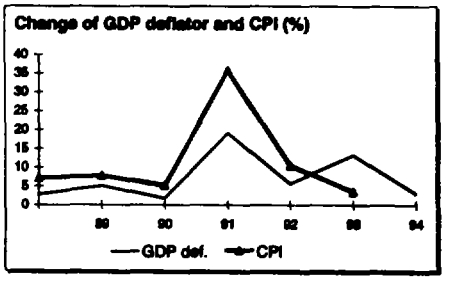
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	84.6	77.2	86.7	85.7	83.2
General government consumption	14.4	18.5	10.3	10.8	12.4
Gross domestic investment	9.0	8.9	9.3	12.2	16.7
Exports of goods and nfs	8.2	7.8	4.6	..	12.3
Imports of goods and nfs	16.2	12.4	10.9	..	24.6
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	..	..	..	..	..
General government consumption	..	..	..	..	..
Gross domestic investment	..	..	..	..	..
Exports of goods and nfs	..	..	..	..	..
Imports of goods and nfs	..	..	..	..	..
Gross national product	4.9	1.6	-2.8	12.4	1.8
Gross national income	..	..	..	..	..



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	19.1	5.2	10.5	3.5	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	28.1	1.7	5.7	13.3	3.1
Government finance					
(% of GDP)					
Current budget balance	..	..	..	..	..
Overall surplus/deficit	..	..	..	..	..



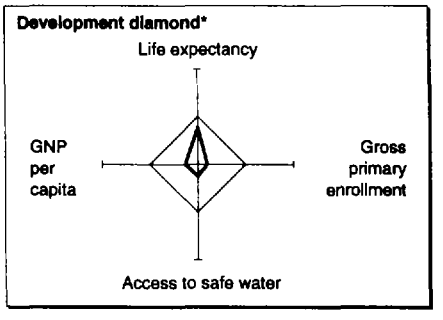
Note: Social indicators (except for population data), as well as data on trade, balance of payments, and debt, include Eritrea. 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Ethiopia

POVERTY and SOCIAL

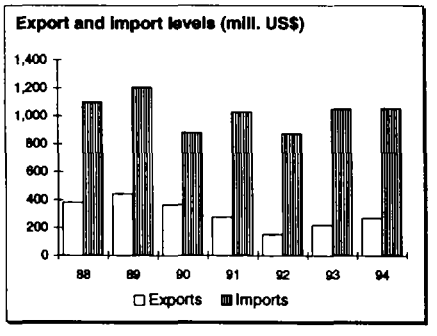
	1985-90	1990-94
(annual growth rates)		
Population	2.8	*3.0*
Labor force	2.0	2.2

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	48.0
Infant mortality *(per 1,000 live births)*	116.6
Child malnutrition *(% of children under 5)*	46.9
Access to safe water *(% of population)*	17.5
Energy consumption per capita *(kg oil equivalent)*	23.1
Illiteracy *(% of population age 15+)*	..
Gross primary enrollment *(% of school-age population)*	22.0



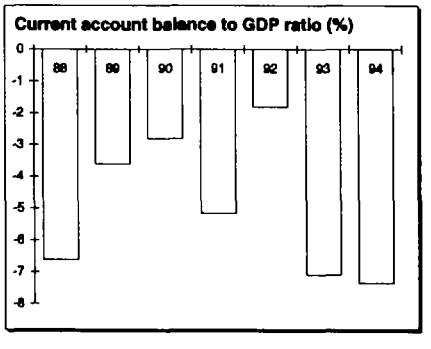
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	359	366	154	222	270
Coffee	225	196	81	126	149
Hides	46	64	28	32	..
Manufactures	..	..	..	..	..
Total imports (cif)	975	881	875	1,051	1,055
Food	283	74	132	166	..
Fuel and energy	186	109	120	240	..
Capital goods	249	340	320	327	..
Export price index *(1987=100)*	96	101	40	40	..
Import price index *(1987=100)*	101	77	60	59	..
Terms of trade *(1987=100)*	95	130	67	68	..
Openness of economy *(trade/GDP,%)*	24	20	16	..	37



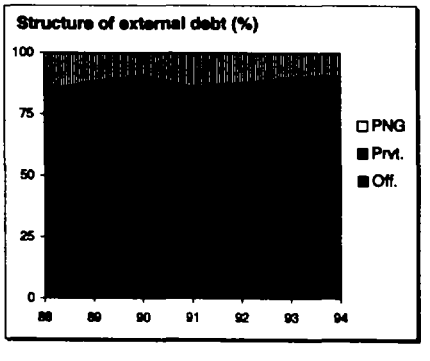
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	549	672	453	507	529
Imports of goods and nfs	1,082	1,069	1,074	1,263	1,235
Resource balance	-533	-397	-622	-756	-706
Net factor income	-33	-67	-85	-75	-97
Net current transfers	193	221	526	398	408
Current account balance					
Before official transfers	-373	-243	-180	-433	-395
After official transfers	-123	-131	41	-183	-180
Long-term capital inflow	333	99	48	56	115
Total other items (net)	-163	-42	-23	231	293
Changes in net reserves	-48	73	-66	-104	-228
Memo:					
Reserves excluding gold *(mill. US$)*	148	20	232	456	544
Reserves including gold *(mill. US$)*	216	55	270	500	588
Conversion rate *(local/US$)*	2.1	2.1	2.1	4.3	5.1



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	264.4	426.7	540.1	595.2	881.0
IMF credit/exports	10.1	0.8	2.5	6.4	9.3
Short-term debt/exports	11.0	17.2	20.1	19.7	6.2
Total debt service/exports	22.5	28.0	13.5	9.0	16.6
GDP ratios					
Long-term debt/GDP	..	..	..	..	..
IMF credit/GDP	..	..	..	..	..
Short-term debt/GDP	..	..	..	..	..
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	15.5	9.9	12.8	10.7	9.7
Official creditors/long-term	84.5	90.1	87.2	89.3	90.3



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Gabon

Gabon is rich in oil, manganese, uranium, and forests, and has one of the highest per capita incomes in Sub-Saharan Africa, with a postdevaluation GDP per capita for 1994 estimated at $3,808. In terms of social indicators, however, Gabon has achieved far less than comparable countries — there is a 72-place gap between Gabon's ranking based on the UN Human Development Index, at 114 out of 173, and its ranking based on GDP per capita, 42 out of 173. In 1993, 37 percent of adults and 44 percent of females were illiterate, infant mortality was 92.2 per 1,000 live births, and life expectancy at birth was 54 years. With just over 1 million inhabitants and an area of 268,000 square kilometers, Gabon is sparsely populated, but the population is growing at 2.8 percent per year. It is the most urbanized country in Africa (73 percent), with almost half of the population — just under 419,000 — concentrated in the capital, Libreville. There is also a significant foreign presence, and the 18 percent of the adult population that is non-Gabonese substitutes for Gabonese labor at all levels. While basic infrastructure exists in telecommunications, transportation, and energy, it requires maintenance and upgrading. Finally, Gabon offers one of the largest remaining pristine ecosystems in the world. Two-thirds of its forests are either untouched or relatively undisturbed; it is estimated that they harbor over 8,000 plant and 600 bird species, contain Africa's largest population of forest elephants, and provide sanctuary for at least 20 primate species.

Gabon's economy is characterized by the distortions that affect many resource-rich countries in which excessive demand for nontradable goods raises factor costs, impeding diversification into less resource-intensive tradable products. As a result, the basis for diversified growth in Gabon has yet to be built. The economy is dominated by the oil sector; it accounts for one-third of GDP, close to half of government revenue, 50 to 60 percent of gross investment, and over three-quarters of merchandise exports. The country relied in the past on spending oil revenue on public investment projects with poor rates of return and on a scale that exceeded the absorptive capacity of the economy, which undermined Gabon's competitiveness and exacerbated its dependence on oil. The modern sector is dominated by inefficient public enterprises and the private sector is stifled. A strong Gabonese entrepreneurial class has yet to emerge. The development of agriculture and small and medium enterprises, which ought to provide employment and income opportunities for the bulk of the labor force, has been hindered by a loss of competitiveness. The underdevelopment and inadequate maintenance of the transport sector, combined with excessive pump prices for gasoline, imply a significant bottleneck to developing other sectors, particularly agriculture and forestry.

Gabon's economy has been in decline since 1986, when the price of crude oil fell 50 percent. Public investment fell as government revenues declined; real nonoil GDP shrank 1.8 percent a year from 1985 to 1994. The crisis significantly curtailed employment in the formal sector: the public and parapublic modern sector contracted by 25 percent from 1985 to 1992; the number of jobs in the modern private sector fell by over 50 percent, and oil employment declined 18 percent. The nonoil private sector accounted in 1992 for only 28 percent of total employment. The loss-making parapublic sector accounts for 35 percent of value added and over 40 percent of employment of the nonoil corporate sector. In 1993, the last year for which comprehensive data are available, subsidies to the public enterprise sector were equivalent to 2 percent of GDP.

The government resorted to accumulating arrears to finance its budget deficits, and by December 1993 external arrears had swollen to $1.1 billion, about one-third of external public debt. The current account of the balance of payments was in deficit because of the disequilibrium of public finances. The government's financial difficulties also threatened to paralyze the domestic financial system.

Recent economic and political developments

In January 1994 the CFA franc was devalued 50 percent against the French franc and the real effective exchange rate improved by some 40 to 45 percent. The devaluation created new possibilities for stabilization and adjustment in Gabon, which negotiated a new program with

the IMF. In April a rescheduling agreement was concluded with the Paris Club and in May with the London Club. These agreements also covered most outstanding arrears on the external debt.

After the devaluation, the government took several measures to maintain the real exchange rate depreciation, including capping public sector wage increases at 10 percent in 1994 and giving appropriate signals to guide wage negotiations in the private sector. It also took a regional lead in reducing average customs duties and simplifying the tariff structure to a four-rate system of 5, 10, 20, and 30 percent, and lifted all quantitative restrictions on imports, except sugar, and replaced them with a three-year surtax to be reduced progressively from 30 percent to zero. It reduced indirect taxes on petroleum products sold on the domestic market to maintain pump prices unchanged until a new system with value-added taxes is instituted in April 1995, and implemented a new electricity tariff structure.

The IMF program is broadly on track. The primary surplus amounted to $205 million, or 5 percent of GDP, twice the program's target, and domestic arrears were reduced by $109 million, almost one-third of the outstanding amount. A shortfall in nonoil revenue was compensated by oil revenue greater than expected and by lower public investment expenditures than programmed. Inflation for 1994 was 35 percent, and private sector wage increases did not exceed 20 percent. Import volume dropped 16 percent while export volume grew by over 7 percent.

The 1994 devaluation had the anticipated contractionary effect on private demand. GDP growth was sluggish at 0.3 percent, while nonoil GDP fell by 6.2 percent. Agriculture, services, and manufacturing contracted, while other industrial sectors grew, buoyed by improved exports of oil, timber, and uranium. An 8.5 percent rise in investment expenditures and a 3 percent increase in government spending partially alleviated the impact of a 18 percent drop in consumption. Domestic savings reached a post-1986 high of almost 50 percent of GDP. The current account surplus continued to climb from 1.5 percent in 1993 to 8.1 percent in 1994. Government expenditures exceeded revenue by $78.5 million in 1994, corresponding to a budget deficit of 2 percent of GDP. Overall government indebtedness remains a serious problem, with $3.5 billion in public and publicly guaranteed external debt outstanding at the end of 1994, the equivalent of 95 percent of GDP.

The December 1993 presidential election was an important stage in Gabon's transition toward multiparty democracy, which began with a national conference in March 1990 and was followed by multiparty legislative elections in September 1990. The main mandate of the new government is to change the electoral code to increase transparency and credibility before the next legislative elections, slated for April 1996. A campaign to regularize or repatriate illegal immigrants by February 15, 1995, has been essentially completed without major incident.

Medium-Term Outlook

The government is laying the foundation of a strategy based on redefining the roles of the state and the private sector in the economy, including disengaging from direct involvement in productive sectors while increasing its role in providing public goods, including protecting the environment and biodiversity, and ensuring adequate and efficient services in health and education. The strategy also calls for reinforcing Gabon's institutional framework to be more conducive to the development of efficient markets; and giving competition and market mechanisms a greater role as the main regulators of private-sector activity.

The government is committed to restructuring the state sector, and has created a privatization unit within the Ministry of Commerce to oversee the withdrawal of the state from productive activities. A privatization law and decree to apply the 1989 competition law have been drafted. Plans for restructuring the largest public enterprises — electricity and water, post and telecommunications, the refinery, the railroad, and the airline — have been submitted. The electricity firm is already under private management.

The government's program of economic reforms is forecast to generate nonoil GDP growth of 3.5 percent a year over the medium term. In the longer run, as structural reforms bear fruit and increase the aggregate productivity of investment, nonoil GDP growth is predicted to accelerate to about 6 percent a year. The incremental capital-output ratio is expected to decline from a historical level in excess of 10 to about 6 within the next decade. Nontraditional exports are projected to increase at about 10 percent a year, in contrast to total exports, which will remain dominated by petroleum (which is expected to stagnate) and are thus forecast to grow at less than 1 percent per year.

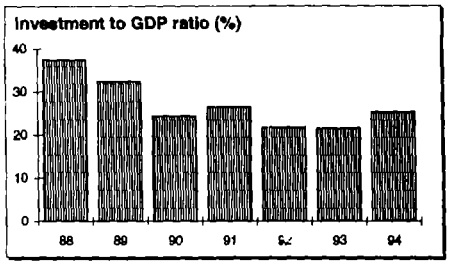
Gabon

Population mid-1993 *(millions)* **1.0**
GNP per capita 1993 *(US$)* **4,960**

Income group: **Upper-middle**
Indebtedness level: **Moderately indebted**

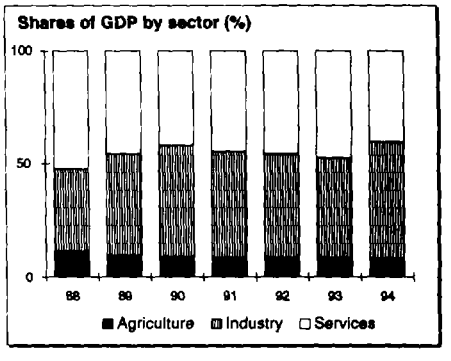
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	38.3	24.4	21.8	21.5	25.3
Exports of goods and nfs/GDP	56.9	50.2	46.8	46.4	62.4
Gross domestic savings/GDP	51.9	41.2	36.0	36.1	47.0
Gross national savings/GDP	42.3	27.7	20.6	20.9	27.3
Current account balance/GDP	-4.8	3.3	-1.1	-0.7	1.8
Interest payments/GDP	1.6	1.4	4.2	0.6	2.4
Total debt/GDP	32.9	72.7	68.3	69.7	102.8
Total debt/exports	56.9	144.2	143.3	148.4	167.7



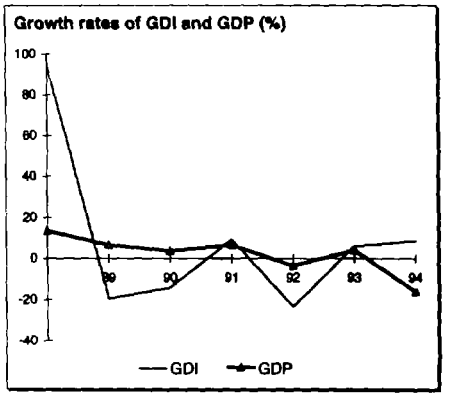
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	6.2	8.6	8.4	8.2	7.9
Industry	59.5	49.6	46.1	44.5	52.0
Manufacturing	5.2	11.6	11.7	11.4	11.0
Services	34.3	41.8	45.5	47.4	40.1
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	1.1	-0.3	-2.2	1.1	-3.4
Industry	1.4	2.8	-2.5	4.0	2.2
Manufacturing	16.4	-0.3	-2.2	1.1	-3.4
Services	0.0	-9.2	-5.0	4.8	-39.9
GDP	0.8	-2.1	-3.6	4.1	-16.1



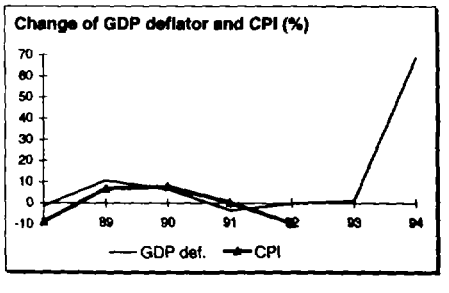
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	29.5	41.9	44.2	48.2	40.5
General government consumption	18.6	16.9	19.8	15.7	12.6
Gross domestic investment	38.3	24.4	21.8	21.5	25.3
Exports of goods and nfs	56.9	50.2	46.8	46.4	62.4
Imports of goods and nfs	43.2	33.4	32.5	31.8	40.7
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	-0.5	-15.0	5.8	0.8	-59.8
General government consumption	-6.4	1.2	1.8	-1.3	2.9
Gross domestic investment	-9.4	-2.8	-23.4	6.0	8.5
Exports of goods and nfs	6.4	4.5	3.7	6.1	4.9
Imports of goods and nfs	-7.7	-1.6	4.2	1.5	-9.7
Gross national product	0.0	-5.0	-7.0	3.2	-23.8
Gross national income	-3.9	-8.8	-7.8	1.2	-30.9



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	-12.9	7.7	-9.6	..	..
Wholesale prices	11.8	..	..	..	..
Implicit GDP deflator	8.4	6.5	0.0	1.0	68.4
Government finance					
(% of GDP)					
Current budget balance	22.5	0.2	0.2	-0.2	3.2
Overall surplus/deficit	-5.0	-4.4	-5.2	-5.8	-4.1



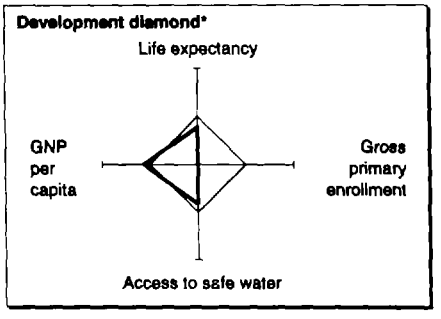
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Gabon

POVERTY and SOCIAL

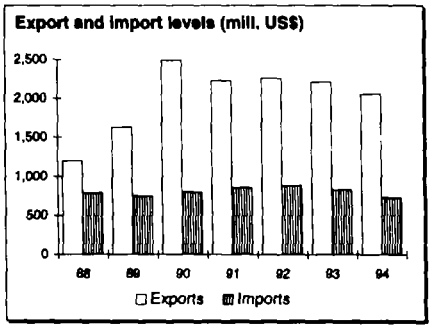
	1985-90	1990-94
(annual growth rates)		
Population	1.7	*1.7*
Labor force	0.7	0.9

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	53.9
Infant mortality *(per 1,000 live births)*	92.2
Child malnutrition *(% of children under 5)*	25.0
Access to safe water *(% of population)*	72.0
Energy consumption per capita *(kg oil equivalent)*	953.3
Illiteracy *(% of population age 15+)*	39.3
Gross primary enrollment *(% of school-age population)*	..



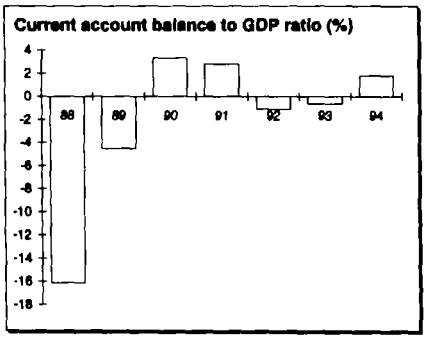
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	1,951	2,489	2,259	2,209	2,056
Fuel	1,629	1,994	1,844	1,772	1,681
Timber	122	225	199	227	209
Manufactures	..	..	..	506	540
Total imports (cif)	977	805	886	835	735
Food	161	143	174	166	146
Fuel and energy	50	11	12	11	10
Capital goods	215	354	335	320	281
Export price index *(1987=100)*	..	..	..	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP,%)*	100	84	79	78	103



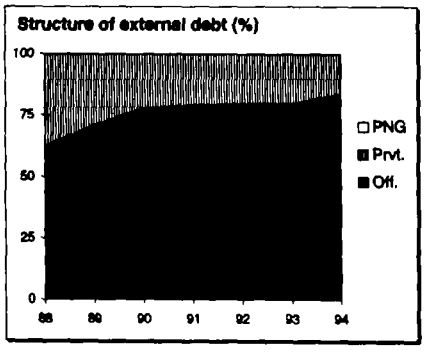
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	2,090	2,730	2,607	2,542	2,403
Imports of goods and nfs	1,913	1,812	1,811	1,743	1,570
Resource balance	177	919	796	798	833
Net factor income	-244	-602	-714	-696	-690
Net current transfers	-109	-136	-144	-139	-72
Current account balance					
Before official transfers	-176	181	-63	-37	71
After official transfers	-183	203	-52	144	264
Long-term capital inflow	213	-260	-217	-148	179
Total other items (net)	-111	314	84	-55	-326
Changes in net reserves	61	-256	186	59	-117
Memo:					
Reserves excluding gold *(mill. US$)*	193	274	71	1	..
Reserves including gold *(mill. US$)*	197	279	75	6	..
Conversion rate *(local/US$)*	449.3	272.3	264.7	283.2	555.2



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	44.5	114.0	113.1	112.3	146.0
IMF credit/exports	0.0	5.1	3.0	1.8	2.6
Short-term debt/exports	12.4	25.2	27.2	34.3	19.0
Total debt service/exports	11.6	6.3	16.2	5.7	9.1
GDP ratios					
Long-term debt/GDP	25.8	57.5	53.9	52.8	89.5
IMF credit/GDP	0.0	2.6	1.4	0.8	1.6
Short-term debt/GDP	7.2	12.7	12.9	16.1	11.7
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	64.0	22.6	20.5	20.4	16.6
Official creditors/long-term	36.0	77.4	79.5	79.6	83.4



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

The Gambia

The Republic of The Gambia is a narrow strip of 10,700 square kilometers on the west coast of Africa surrounded on three sides by Senegal. Limited natural resources and an underdeveloped human capital base have constrained economic diversification and growth. High population density on agricultural land — 207 inhabitants per square kilometer in 1991 — and very high rates of urban population growth are generating mounting concern about environmental issues. The Gambia's open undiversified economy is highly vulnerable to changes in the external environment: adverse weather, fluctuations in the world price of the main export commodity (groundnuts), a changing aid climate, economic conditions in neighboring countries, and shifting demand in Western Europe for tourist services.

The Gambia is one of the least developed countries in Sub-Saharan Africa, with a 1993 per capita GNP of $350. The mainstay of the economy has traditionally been rainfed cultivation of cereals, groundnuts, and other agricultural products, which have been adversely affected by irregular and inadequate rainfall in the past decade. Groundnuts provide about 70 percent of export earnings, and past economic policies did little to broaden export-earning capacity. Potential sources for diversifying growth in The Gambia's economy lie with agriculture, mainly horticultural and livestock products, agricultural and livestock product processing, and light manufacturing, fisheries, tourism, and other services. About one-third of food requirements, all fuel, intermediary and capital goods requirements, and most manufactured goods are imported. Although recent efforts to diversify exports through tourism and re-exports have somewhat improved earnings and broadened the export base, this has not been sufficient to sustain expanding import requirements

Recent Political Developments

From independence in 1965 until July 1994 The Gambia had a democratic multiparty parliamentary system. The last presidential election was held in April 1992. Political stability and a good record on issues such as respect for human rights won The Gambia prestige in the international community, which generated generous aid and technical assistance. However, on July 22, 1994, the government was overthrown in a bloodless coup by junior officers that charged it with widespread corruption and abuse of power. The new government of the Armed Forces Provisional Ruling Council expressed its intention to persevere with the economic policies of the past and honor all external obligations. After foiled coup attempts in November 1994 and January 1995 the provisional council accepted a civilian National Consultative Committee's February 1995 recommendations to return the country to constitutional rule in July 1996.

The military takeover led to an almost complete halt in external support for The Gambia. Except for humanitarian aid, key donors have suspended all program aid including balance of payments support. The withdrawal of donors and the subsequent decline in private sector confidence have had devastating effects on the economy.

In 1985 The Gambia adopted a comprehensive macroeconomic stabilization and adjustment program aimed at liberalizing trade and price policies, establishing a flexible exchange rate and liberalizing interest rate policies, streamlining credit and fiscal policies, and privatizing public enterprises. Implementation of reforms was generally satisfactory, and macroeconomic targets were mostly met. A successor Program for Sustained Development launched in 1990 aims at consolidating past policy reforms and promote private-sector-led growth.

Recent Economic Developments

For the second consecutive year, the Gambian economy has had to withstand severe unanticipated shocks. Over the past 18 months its vulnerable economic base has been affected by three major shocks in addition to political unrest. Senegal effectively closed its border in August 1993 to stop the re-export and transit trade. The Central Bank of the West African States suspended the external convertibility of the CFAF in August 1993, making re-export and cash crop transactions in CFAF less attractive for The Gambia, and in January 1994 the CFAF devalued and accompanying structural reforms were introduced in Senegal and other CFA countries. Its

tourism industry also collapsed after an attempted countercoup in November 1994. These shocks slowed economic activities, which adversely affected employment, investment and income levels, government revenues, and the external position. While the developments in the CFA Zone affected re-exports and related transport, the military coup and subsequent related events shattered fledgling tourism, construction, horticulture, and communications industries. The reform-induced supply response and investor confidence in service-related activities have been significantly reduced, and as in the prereform years, the thin economic base is once again virtually dependent on good agricultural production, particularly groundnuts.

Despite external shocks, fiscal 1994 macroeconomic performance was satisfactory, and the reform program remained on track. Although there was a reduction in re-export trade of about 30 percent, it is estimated that GDP grew by about 1.5 percent in real terms as a result of above-average performance in agriculture, tourism, construction, and communications during the period. The government emergency policy measures, first put in place in September 1993, and further strengthened in March 1994, were key in effectively preserving the fiscal and monetary position. Government revenue collection was broadly on target, reflecting improvements in customs and income tax administration. Inflation was kept in check at 5 percent on an annual basis. External reserves remained at a comfortable five month's worth of imports.

The outlook for fiscal 1995 is less promising. With the exception of agriculture (led by a good harvest of groundnuts), with an estimated real growth rate of about 11 percent in fiscal 1995, all other sectors are registering a significant decline. Preliminary estimates suggest that the economy may decline as much as 4 percent in real terms. Tourism — following November 1994 travel restriction by the British and Scandinavian authorities — horticulture, and construction have been hardest hit. The government has been able so far to maintain a prudent fiscal and restrictive monetary stance. On the fiscal side, although revenue levels declined, the government has been effective in curtailing public spending in line with revenue collection. Improved tax administration has been a key in mitigating a more severe revenue loss, and the restrictive monetary stance has been instrumental in maintaining macroeconomic stability. Money supply grew moderately, about 3 percent in the first six months, reflecting government's policy of keeping it in line with nominal GDP growth and anticipated inflation. As a result of sound policies and good agricultural production, inflation has been maintained at about 7 percent. Despite the decline in foreign exchange earnings, the level of external reserves is still healthy, providing a safe cushion against declining imports. The dalasi maintained its value.

While the government's response to the external shocks has been timely and appropriate, it is too soon to assess with any certainty the magnitude of the combined effects of political uncertainty and the CFAF devaluation and Senegal's accompanying adjustment measures that have affected The Gambia's re-export trade. Private traders in The Gambia consider the border issue the key hindrance to the re-export trade and have already diversified their re-export markets in the region.

Reform programs have been broadly on track since 1991. In particular, progress has been made in public enterprise reform as the government privatized core assets of the Gambia Produce and Marketing Board in July 1993, leased the Gambia Utility Company to a foreign private managing company in July 1993, signed a performance contract with the Civil Aviation Authorities, and granted autonomy to the Post Office in early 1993. Ghana's Customs Department began operating a computerized system to improve import duty collection in late 1993, and reorganization of the department is under way after the July 1993 removal of a number of corrupt customs officials. In January 1994 the government initiated measures to broaden the income tax base and its administration. Results thus far have been satisfactory.

After the first six months of military rule the overall macroeconomic framework is relatively intact, although there is evidence of attempts and actual instances of unjustified government interventions in market-based policies, including interference in the importation and distribution of rice and some privatized enterprises, and the lack of an effective collection mechanism for corporate taxes owed by public enterprises.

Progress has been made in revising and expanding the tax base and improving tax collection efficiency and reducing budgetary expenditures while allowing for higher recurrent expenditures on education and health and higher capital expenditure for priority sectors. The budget process and the allocation system, however, are yet to be improved. A three-year rolling public investment program introduced in 1989, is focused on rehabilitation and maintenance in the infrastructure and social sectors and is an integral part of the budget process. Public expenditure reviews are yet to be systematically undertaken in The Gambia, and only the Ministry of Agriculture has made good progress in developing a program budgeting system.

The tax base has shrunk since the July 1994 coup, particularly sales taxes and import duties, owing primarily to the decline in tourism and overall low level of economic activities. However, the level of recovery has improved as a result of enhanced tax administration. Collection of outstanding debts to the now-privatized Gambia Commercial and Development Bank by the Asset Management Recovery Company has accelerated and doubled since the coup. The settlement of long-

pending cases has significantly increased. The recovery firm is in the possession of assets and collateral, whose liquidation has been deferred because of the saturated and depressed real estate market.

Poverty and Social Indicators

The Gambia's poverty is reflected in its low level of human resource development, with social indicators that are among the lowest in the region. Illiteracy is estimated at 73 percent. Official figures put primary school enrollment at about 60 percent, although recent household survey data suggest a level of 40 to 45 percent. Secondary-school enrollment is very low. Infant and child mortality rates are very high (the under-five mortality rate is 242 per 1,000), and there is a high incidence of chronic infectious diseases and seasonal malnutrition. Recent census data suggest a population growth rate of about 4 percent, although heavy in-migration may account for 0.5 to 0.6 percent of this.

The development implications of a rapidly growing population and the gap in human resource development have been recognized by both the previous government and the Provisional Ruling Council. This awareness has changed the stated policy, which now calls for raising the long-term productive potential of the economy and improving the welfare of the population through improved allocation and efficiency in the use of public resources, especially in education, health including family planning and HIV-AIDS control, and poverty alleviation. Access to primary education and health services has been considerably expanded in recent years with donor assistance, and the challenge now is to consolidate on gains made over the past five years and improve the quality of social services. The government adopted a National Population Policy in June 1992, and family planning services, including HIV-AIDS prevention programs are being extended to health centers throughout the country. The government's objectives are to reduce maternal and infant deaths, increase the contraceptive prevalence rate (estimated at 10 percent), and encourage safe sex behavior to help mitigate the spread of HIV-AIDS. Progress in implementing these efforts has, however, stalled in the wake of the July 1994 coup.

Environment

Environmental deterioration is a critical long-term development constraint. In rural areas, natural resources are threatened by increasing population pressures, overgrazing, salinity intrusion along the Gambia River, and inadequate groundwater management. There is also a potential threat to clean groundwater supply in the Greater Banjul area as a result of its proximity to the ocean and a shallow water table. The government has initiated a comprehensive effort to arrest the deterioration of the environment through more careful use of existing resources based on improved resource management practices, and has prepared The Gambia Environmental Action Plan.

Medium-Term Outlook

The Gambia's strategy for the medium term focuses on stimulating private-sector development, maintaining macroeconomic stability, and improving incentives as the best means to adjust to a changing external environment. However, recent political events could seriously undermine its development objectives, and medium-term targets established before July 1994 should be reexamined in light of the deteriorating economic base and business confidence. If, however, The Gambia returns to constitutional rule as planned in July 1996, political stability and a reestablishment of private-sector confidence could spur growth in the medium term. Expansion is anticipated in the agricultural sector, export-oriented small-scale manufacturing, fisheries, tourism, and other services. As in the recent past, growth in the agricultural sector will continue to reflect good harvests due to favorable weather conditions, while the service and industrial sectors would respond more slowly because of recent events.

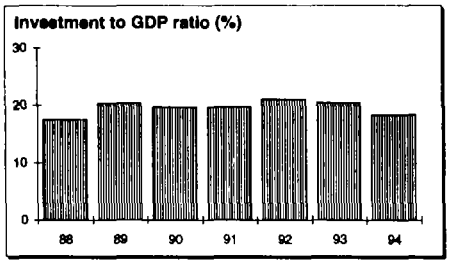
The Gambia

Population mid-1993 *(millions)* **1.0**
GNP per capita 1993 *(US$)* **350**

Income group: **Low**
Indebtedness level: **Moderately indebted**

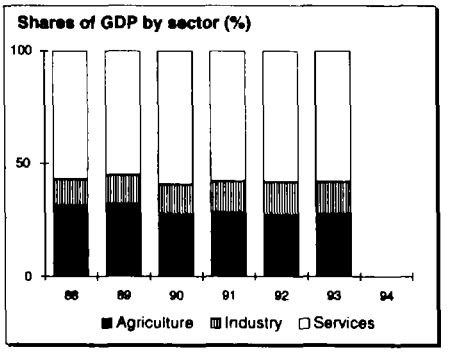
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	12.5	19.7	21.1	20.5	18.4
Exports of goods and nfs/GDP	40.8	62.2	61.0	53.2	54.3
Gross domestic savings/GDP	5.1	8.8	6.8	8.5	..
Gross national savings/GDP	-4.5	7.7	9.8	10.8	..
Current account balance/GDP	-16.3	-14.3	-1.8	-13.5	..
Interest payments/GDP	0.2	3.1	1.8	1.6	1.6
Total debt/GDP	112.6	108.0	105.8	107.2	109.6
Total debt/exports	278.7	214.6	166.0	187.9	..



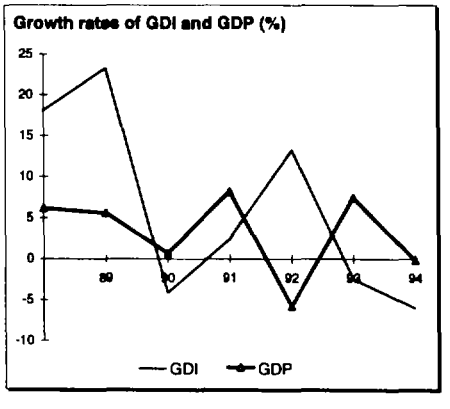
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	29.7	27.3	27.2	27.5	..
Industry	11.4	13.5	14.7	14.6	..
Manufacturing	6.3	7.0	7.2	7.3	..
Services	58.9	59.3	58.1	57.8	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	0.2	*5.0*	-2.3	3.9	..
Industry	4.4	*3.1*	6.2	1.4	..
Manufacturing	5.7	..	..	..	..
Services	3.5	*-1.1*	1.9	1.5	..
GDP	3.5	1.9	-5.8	7.4	-0.2



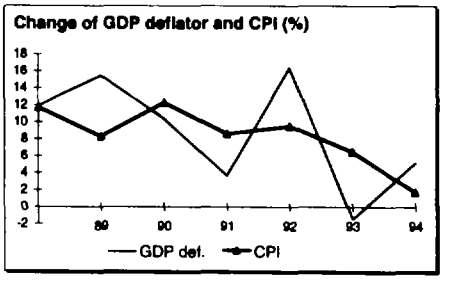
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	81.9	72.3	75.2	73.7	..
General government consumption	13.0	18.9	18.0	17.8	..
Gross domestic investment	12.5	19.7	21.1	20.5	18.4
Exports of goods and nfs	40.8	62.2	61.0	53.2	54.3
Imports of goods and nfs	48.3	73.1	75.2	65.2	60.7
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	2.2	*37.5*	98.4	4.0	..
General government consumption	5.7	*1.4*	5.2	0.0	..
Gross domestic investment	10.9	2.2	13.2	-2.5	-6.0
Exports of goods and nfs	11.1	2.2	23.8	-12.9	-4.6
Imports of goods and nfs	10.5	27.5	133.8	-7.0	1.2
Gross national product	5.1	2.8	-4.8	6.6	-0.2
Gross national income	4.7	21.7	58.6	5.0	10.6



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	18.3	12.2	9.5	6.5	1.7
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	54.9	10.3	16.3	-1.5	5.2
Government finance					
(% of GDP)					
Current budget balance	1.4	3.1	6.0	4.5	..
Overall surplus/deficit	-6.9	-4.2	-2.1	-2.7	..

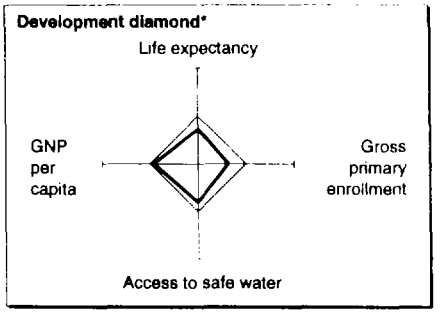


Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

POVERTY and SOCIAL

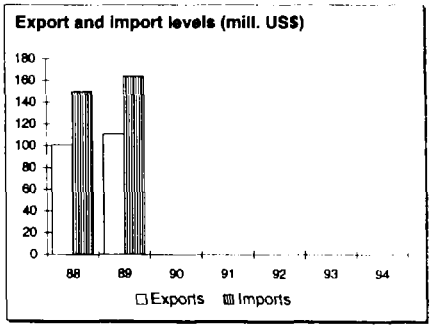
	1985-90	1990-94
(annual growth rates)		
Population	4.3	*4.0*
Labor force	1.4	1.5

	most recent estimate
Poverty level: headcount index *(% of population)*	64.0
Life expectancy at birth	45.4
Infant mortality *(per 1,000 live births)*	130.0
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	55.0
Energy consumption per capita *(kg oil equivalent)*	56.6
Illiteracy *(% of population age 15+)*	72.8
Gross primary enrollment *(% of school-age population)*	69.0



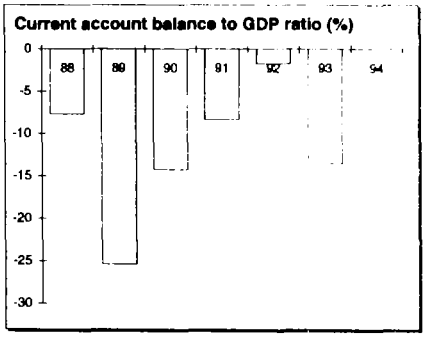
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	66	..	..	..	..
Groundnuts	10	..	..	..	..
Fish	3	..	..	..	..
Manufactures	..	..	..	..	..
Total imports (cif)	96	..	..	..	..
Food	34	..	..	..	..
Fuel and energy	12	..	..	..	..
Capital goods	18	..	..	..	..
Export price index *(1987=100)*	..	..	..	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP,%)*	89	135	136	118	115



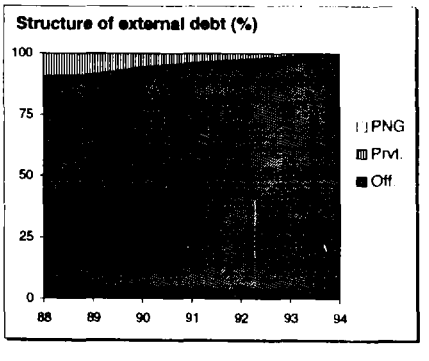
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	88	164	228	200	..
Imports of goods and nfs	104	197	245	258	..
Resource balance	-16	-33	-17	-58	..
Net factor income	-24	-23	-3	-5	..
Net current transfers	5	9	13	14	..
Current account balance					
Before official transfers	-35	-47	-6	-49	..
After official transfers	-1	-2	38	-7	..
Long-term capital inflow	20	26	37	14	..
Total other items (net)	-9	-17	-36	-13	..
Changes in net reserves	-10	-7	-40	7	..
Memo:					
Reserves excluding gold *(mill. US$)*	2	55	94	..	98
Reserves including gold *(mill. US$)*	2	55	94	..	98
Conversion rate *(local/US$)*	5.0	7.9	8.8	9.5	9.5



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	200.9	185.4	149.0	169.6	..
IMF credit/exports	37.5	26.9	15.3	16.1	..
Short-term debt/exports	40.3	2.2	1.7	2.1	..
Total debt service/exports	10.4	22.3	12.6	13.5	..
GDP ratios					
Long-term debt/GDP	81.2	93.3	94.9	96.8	100.9
IMF credit/GDP	15.2	13.6	9.8	9.2	7.9
Short-term debt/GDP	16.3	1.1	1.1	1.2	0.8
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	21.6	5.9	2.6	1.3	0.0
Official creditors/long-term	78.4	94.1	97.4	98.7	100.0



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Ghana

Ghana is endowed with a broad range of natural resources, including arable land; forests; sizable deposits of gold, diamonds, bauxite, and manganese; and considerable potential for hydroelectric power. The economy has traditionally depended on primary production and exports. Most of the Ghanaian labor force is employed in agriculture. Agricultural production — primarily small-scale — is concentrated in staple food crops and cocoa; Ghana ranks among the world's largest producers and exporters of cocoa. The service sector is the second-largest employer — over 25 percent of the labor force — and accounts for over 40 percent of real GDP, largely trade and public-sector services. The industrial sector accounts for about 16 percent of GDP and employment; it is relatively diverse and well developed by Sub-Saharan African standards.

Although Ghana once enjoyed a relatively high living standard compared with most other West African nations, poor economic policies and deteriorating external terms of trade in the 1970s led to substantial declines in income in the 1970s and early 1980s. Between 1970 and 1982 import volumes fell by a third, real export earnings by 52 percent, and domestic savings and investment from 12 percent of GDP to almost insignificant levels. The return of over 1 million Ghanaians from Nigeria in 1982/83 on top of a prolonged drought severely strained the food and employment situation.

The government introduced its Economic Recovery Program in 1983 to restore and sustain macroeconomic stability, maintain an incentive framework to enhance efficiency, encourage savings and investment, provide an enabling environment for the private sector, and improve the efficiency of public sector resource management. The program was supported by financial and technical assistance from the World Bank, the IMF, and other multilateral and bilateral donors.

Real GDP growth averaged 5 percent a year (2 percent a year on a per capita basis) over the next decade, compared with negative growth recorded in the preceding decade. The benefits of growth have been widely distributed. Farmers and rural workers have gained from improved producer prices for cocoa and liberalization in trading of other cash crops. Real food prices for cereals and roots have fallen gradually. Government expenditures on social programs rose significantly in the initial years of the program, and most social indicators and living standards improved. Value added in mining rose by about 9 percent in 1992, and a further 9 percent in 1993, reflecting investment in the rehabilitation of existing mines, in new joint ventures, and in increased small-scale mining activity. Based on the national accounts statistics, gross national savings, after rising consistently to reach 9.9 percent of GDP in 1991, fell to 1.2 percent in 1993 but rose to 6.6 percent in 1994. Total investment, after peaking at 16.5 percent of GDP in 1991, fell to 12.8 percent in 1992 but recovered to 16.3 percent in 1994.

Exchange rate and trade reforms have been the centerpieces of Ghana's reform program. As a result, import protection is low and relatively less dispersed, and based on two tax instruments: the import duty and the uniform special tax. The government abolished the import licensing system in January 1989, and since then importers submit only import declaration forms. In March 1992 the auction market that had been set up to sell foreign currency was replaced by the interbank foreign exchange market. Price and distribution controls were also dismantled.

The cocoa sector is central to Ghana's economy both for its contribution to export performance and tax revenues, and for its generation of rural income and employment. The Economic Recovery Program aims to increase competition, reduce transaction costs, and increase the share of the world price going to farmers. Overall progress has been slow but steady. The farmers' share of the export price increased from 25 percent in the 1984/85 crop year to around 50 percent in 1993/94. The Cocoa Board trimmed its operational expenses by retrenching about 30,000 workers. In the 1992/93 season, the government introduced a new cocoa policy by allowing private traders to compete with the Cocoa Board in domestic cocoa trading. Six companies were licensed to trade and purchased close to 20 percent of the crop. The government has also recently agreed to study options for liberalizing cocoa exports.

Ghana's fiscal situation improved substantially under the recovery program through better mobilization of revenue, tax reform, improved tax collection, and rationalization of consumption taxes and user charges. The

program also improved the efficiency of public resource management, but much more remains to be done to ensure efficient expenditure management and project implementation. In budget formulation, recurrent expenditures were given higher priority in an effort to restore the efficiency of the health and education services. Public investment grew from negligible levels at the beginning of the program to 9.9 percent of GDP in 1993, emphasizing rehabilitation of the country's economic and social infrastructure. About 75 percent of the public investment program in 1993 was accounted for by investment in infrastructure, especially roads. To improve investment allocations, sector ministries strengthened their planning units, and the Ministry of Finance and Economic Planning established a committee to ensure that investments meet established criteria and support sector strategies, within a three-year time horizon.

The government has also undertaken wide-ranging financial reforms. It has abolished interest rate controls and sectoral credit ceilings. With the promulgation of a new banking law in 1989, an improved legal framework governing banking activities was introduced, including uniform accounting and auditing standards for all banks, and better supervision by the Bank of Ghana, and the finances and management of distressed banks have been restructured. The second stage of the financial adjustment program was to reduce government ownership in all state-controlled banks to a minority position of 40 percent. This program is now under implementation and the three largest banks — Ghana Commercial Bank, Social Security Bank, and National Investment Bank — are being prepared for divestiture by private international financial advisers. This divestiture process will continue over the next few years. The main issue in the financial sector is that its depth is very low. With competition, intermediation should improve. A more competitive financial system should also pursue deposit mobilization more vigorously. Ghana has a small stock exchange listing 18 companies. With an ongoing divestiture program, it is anticipated that the stock exchange will be a vehicle for share flotation, broadening the ownership of these companies among the Ghanaian public. The government's sale of shares in Ashanti Goldfields in 1994 provided a strong impetus to the stock exchange, doubling its capitalization.

Recent Economic Developments

After a decade of sustained adjustment, there remain concerns about maintaining macroeconomic stability in Ghana. Macroeconomic imbalances re-emerged in late 1992 when civil servants obtained large wage increases shortly before the elections. Strong corrective measures were adopted in the 1993 and 1994 budgets, and the narrow budget moved from a deficit of 4.8 percent of GDP in 1992 to a deficit of 2.5 percent in 1993 and 1.1 percent in 1994. If excess divestiture receipts are included, then fiscal balance was in surplus by 2.2 percent in 1994. Divestiture receipts, which exceeded original projections by 3.2 percent of GDP, also cushioned the large shortfall in program aid. Money supply grew by around 42 percent in 1994. A lower real GDP growth for 1994 is now estimated at 3.8 percent instead of the originally projected 5 percent, largely because of untimely rains and ethnic conflict in the north. Inflation rose to over 30 percent by the end of the year.

Macroeconomic stability is programmed to be restored over the course of 1995. At the core of the 1995 budget are measures, including introduction of a value-added tax, designed to secure a fiscal surplus of 1.2 percent of GDP. Credit policy aims at an 8 percent growth in money supply, and the rate of inflation is targeted to slow down to 18 percent on an annual basis by the end of the year. Real GDP growth is projected to be 5 percent, and the balance-of-payments current account deficit (including official transfers) is expected to fall from 6 percent of GDP in 1994 to 3.4 percent in 1995.

Progress in the divestiture program was slow until 1993. As of the end of 1993 only 64 state-owned enterprises had been privatized or liquidated, with another 196 with majority state ownership. A significant step forward in the divestiture program took place with the sale of government shares in Ashanti Goldfields and seven minority-held companies in 1994. The government plans to enhance the transparency of divestiture and contract private firms to speed privatization All methods of sale would seek a core private investor with a controlling share and ensure that at least 51 percent of the shares of privatized firms are held by the private sector.

Poverty and Social Indicators

Ghana's economic growth under the recovery program has produced major improvements in poverty trends. An extended poverty study has shown that between 1988 and 1992, the incidence of poverty dropped from just under 36 percent to 31 percent. This is clearly a major achievement. Almost all of the improvement comes from economic growth and the resultant increase in average incomes and expenditures. Income distribution has remained relatively stable over the period. Other indicators (such as the depth of poverty, the food expenditure ratio, and school enrollments) also show marked improvement. The gains appear to have benefited most regions, and especially rural areas. In the rural Savannah region, for example, the incidence of poverty fell from 50 percent in 1988 to 39 percent in 1992. Even urban areas other than Accra have benefited from the economic recovery. It appears that the reduction in poverty that has occurred in rural areas may be due to increased

reliance on off-farm income. The gender incidence of poverty also seems to have improved. Poverty in Accra has, however, increased markedly (from just 7 percent in 1988 to 21 percent in 1992).

Poverty is still predominantly a rural phenomenon, and rural areas account for more than 70 percent of national poverty. The northern Savannah region is significantly poorer than the national average. The Northern, Upper East, and Upper West regions are the poorest regions, followed by the Volta region. Despite increasing poverty, the Greater Accra region is the least poor in the country. The majority of the poor are food crop and export crop farmers with average per capita income below 128,404 cedis, or one-third of the national average. Informal sector wage employees have gained most from the economic recovery, but export crop and food crop farmers in spite of their relative poverty have also seen an improvement in welfare in recent years. The Participatory Poverty Assessment done in conjunction with the extended survey suggests that living standards among Ghana's poorest groups remain seriously low. The incidence of government expenditures suggests that the poor gain very little from social spending. The estimates show that targeting has not improved. In short, while the poverty study suggests that the poor did benefit from the economic recovery in Ghana, it counsels caution about their participation in future growth without increased investment in human capital.

Since the 1992 election-related fiscal shock, Ghana's macroeconomic performance has been an issue. Though the government has made considerable progress in restoring fiscal balance and reducing the external deficit, inflation remains relatively high. The corrective measures announced in the 1995 budget, and the value-added tax being introduced, are likely to restore macroeconomic balance in 1995. There is a considerable need for balance-of-payment financing over the 1996-98 period. In addition, given the size of the wage bill and lower divestiture receipts, there remains a threat of macroeconomic instability from another public-service wage shock, and restructuring and downsizing the public service are critical for sustained macroeconomic stability. Accelerated growth can only be achieved after macroeconomic stability becomes a reality and domestic savings and investment begin to rise.

Recent developments in the government's approach to the private sector have been very positive. After exhibiting an upward trend in the period 1983-91, private investment fell in 1992 fell to potential macroeconomic uncertainty and fell again in 1993. Private sector investment in 1993 was only 4.9 percent of GDP, down from 9.3 percent in 1991. In 1994 it is estimated not to have increased. These weak investment results were due mostly to macroeconomic instability. While the government has repealed most of the old controls and regulations and a new Investment Act has been passed, its continuing ownership of a wide range of productive activities and of most of the commercial banks has given conflicting signals to the private sector. However, the government's recent effort to improve its image through a number of initiatives, including a very constructive dialogue with the private sector, is clearly making a sea change. A challenge now facing the government is to nurture Ghana's emerging positive image in the business community and to draw wider investment — beyond the mining sector and the Ghana Stock Exchange companies — from foreign and domestic sources. One of the government's objectives for achieving rapid export growth is to promote nontraditional exports, increasing their contribution from 7 to 15 percent of exports by 2000, and the Export Promotion Council has begun a medium-term plan for nontraditional exports.

A lack of adequate human and institutional capacity and inefficient utilization of existing capacity are major bottlenecks to Ghana's development efforts. Although the government responded to these capacity constraints over the first decade of reforms, Ghana continues to face serious human resource problems. The government established a National Capacity Building Steering Committee in 1993 to prepare for a sensitizing and consensus-formulating national workshop. The workshop established a plan of action to improve public sector policy and management, and the policy environment for the private sector, including general education, vocational training, and management training of business people. The president recently launched a National Institutional Renewal Program aimed at achieving, among other things, a leaner and more effective public service.

Environment

The major environmental issues in Ghana are soil degradation, deforestation, and the health impact of mining activities, water contamination, and inadequate sanitation. In the 1980s, 25,000 hectares of forest were lost each year, and indications are that the rate is accelerating. In rural areas, less than 40 percent of the population has access to safe drinking water and only 15 percent have adequate sanitation. The discharge of heavy metals and cyanide in mineral-producing areas is polluting water with a potentially serious impact on human health.

External Debt

Ghana has not rescheduled its debt service obligations since the start of the economic recovery program. Its total debt outstanding and disbursed (including IMF debt) as of December 31, 1993, was $4.9 billion, close to 81 percent of GDP. Both the current and the projected ratios are well within the satisfactory range of debt ratios.

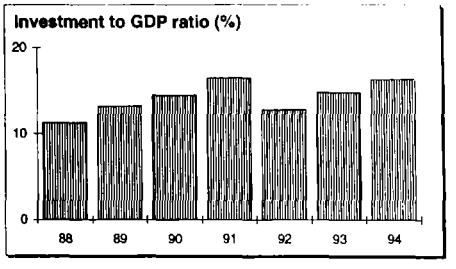
Ghana

Population mid-1993 *(millions)* **16.4**
GNP per capita 1993 *(US$)* **430**

Income group: **Low**
Indebtedness level: **Severely indebted**

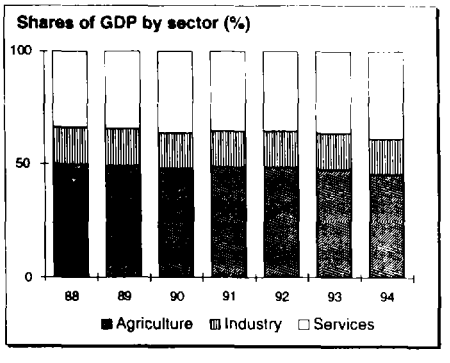
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	9.6	14.5	12.8	14.8	16.3
Exports of goods and nfs/GDP	9.7	16.0	16.0	19.7	25.2
Gross domestic savings/GDP	7.6	6.0	2.0	-1.4	3.5
Gross national savings/GDP	6.5	7.4	4.2	1.2	6.6
Current account balance/GDP	-5.4	-6.9	-8.6	-13.6	-6.6
Interest payments/GDP	0.7	0.9	1.1	1.2	1.0
Total debt/GDP	49.7	61.0	62.6	75.4	59.5
Total debt/exports	330.9	383.8	381.7	375.2	342.6



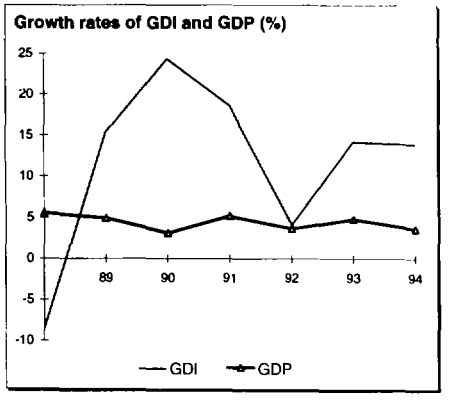
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	44.9	47.9	48.6	47.6	45.5
Industry	16.7	15.9	16.2	16.1	15.7
Manufacturing	11.5	9.2	8.7	8.5	8.1
Services	38.4	36.3	35.3	36.4	38.8
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	2.1	1.8	-0.6	2.8	1.0
Industry	7.1	4.3	5.7	4.3	2.8
Manufacturing	6.1	2.0	2.7	2.2	1.5
Services	7.9	7.3	8.1	7.3	6.8
GDP	4.8	4.3	3.6	4.8	3.6



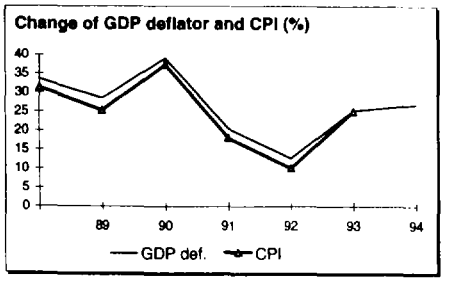
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	83.0	85.6	87.6	89.7	84.8
General government consumption	9.4	8.4	10.3	11.7	11.7
Gross domestic investment	9.6	14.5	12.8	14.8	16.3
Exports of goods and nfs	9.7	16.0	16.0	19.7	25.2
Imports of goods and nfs	11.6	24.4	26.8	35.9	38.0
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	3.9	0.8	0.9	1.9	-3.0
General government consumption	1.6	16.1	24.8	19.1	6.0
Gross domestic investment	12.2	11.8	4.1	14.2	13.9
Exports of goods and nfs	10.4	7.7	1.8	17.0	1.2
Imports of goods and nfs	8.8	6.6	1.7	19.0	-7.2
Gross national product	4.8	4.3	3.9	4.7	3.4
Gross national income	3.4	3.6	2.1	2.6	5.4



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	10.3	37.3	10.1	25.0	..
Wholesale prices	53.9	22.7	..	..	..
Implicit GDP deflator	20.7	39.1	12.8	25.2	26.8
Government finance					
(% of GDP)					
Current budget balance	0.1	1.6	-2.2	-0.9	4.7
Overall surplus/deficit	..	-4.8	-10.7	-10.8	-6.8



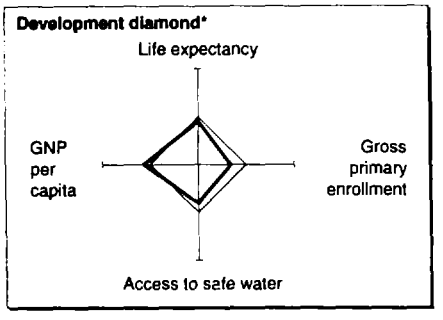
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Ghana

POVERTY and SOCIAL

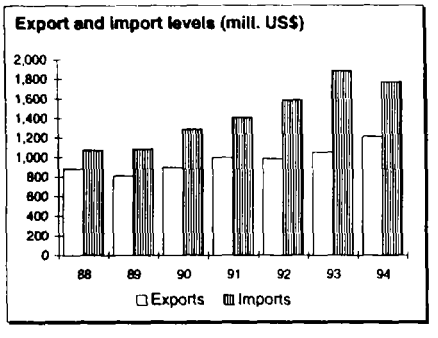
	1985-90	1990-94
(annual growth rates)		
Population	3.1	*3.0*
Labor force	2.7	2.9

	most recent estimate
Poverty level: headcount index *(% of population)*	35.9
Life expectancy at birth	56.4
Infant mortality *(per 1,000 live births)*	79.4
Child malnutrition *(% of children under 5)*	35.5
Access to safe water *(% of population)*	55.7
Energy consumption per capita *(kg oil equivalent)*	96.1
Illiteracy *(% of population age 15+)*	39.7
Gross primary enrollment *(% of school-age population)*	74.0



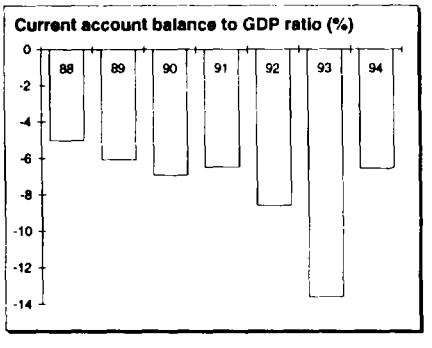
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	632	897	986	1,052	1,215
Cocoa	412	361	329	280	305
Timber	28	119	123	143	166
Manufactures	..	..	..	..	..
Total imports (cif)	729	1,290	1,589	1,885	1,771
Food	40	38	36	41	42
Fuel and energy	200	204	181	171	175
Capital goods	185	494	699	1,038	969
Export price index *(1987=100)*	84	84	84	76	87
Import price index *(1987=100)*	95	111	113	118	120
Terms of trade *(1987=100)*	88	75	74	64	72
Openness of economy *(trade/GDP,%)*	21	40	43	56	63



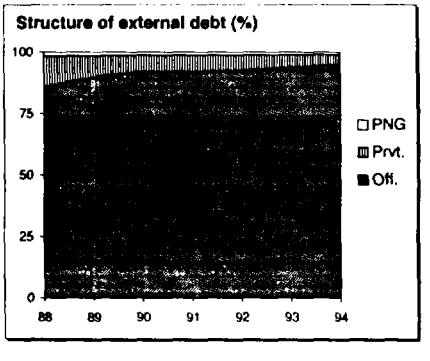
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	670	982	1,104	1,197	1,364
Imports of goods and nfs	836	1,505	1,844	2,183	2,058
Resource balance	-166	-523	-740	-986	-694
Net factor income	-111	-111	-106	-102	-102
Net current transfers	33	202	255	261	271
Current account balance					
Before official transfers	-244	-432	-592	-828	-525
After official transfers	-134	-218	-376	-572	-325
Long-term capital inflow	127	309	409	395	325
Total other items (net)	67	27	-157	218	181
Changes in net reserves	-60	-118	124	-41	-181
Memo:					
Reserves excluding gold *(mill. US$)*	479	219	320	410	..
Reserves including gold *(mill. US$)*	552	309	412	517	..
Conversion rate *(local/US$)*	76.2	326.3	437.1	649.1	647.9



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	199.1	276.2	279.6	276.1	261.6
IMF credit/exports	103.6	75.2	65.5	60.3	48.9
Short-term debt/exports	28.1	32.4	36.6	38.8	32.1
Total debt service/exports	23.4	35.9	26.6	22.7	23.2
GDP ratios					
Long-term debt/GDP	29.9	43.9	45.9	55.5	45.4
IMF credit/GDP	15.6	12.0	10.7	12.1	8.5
Short-term debt/GDP	4.2	5.1	6.0	7.8	5.6
Long-term debt ratios					
Private nonguaranteed/long-term	3.0	1.2	1.1	1.1	0.9
Public and publicly guaranteed					
Private creditors/long-term	12.1	6.8	6.3	5.0	4.2
Official creditors/long-term	85.0	92.0	92.6	93.9	94.9



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Guinea

Guinea is richly endowed with agricultural, mineral, and energy resources but is one of Africa's poorer countries, with a per capita income estimated at $500 in 1993. About a quarter of the children born die before the age of five, and average life expectancy barely reaches 40 years. Only 39 percent of school-age children have access to primary education, and 76 percent of the adult population is illiterate. An estimated 50 percent of Conakry's population lives in poverty.

In September 1958 Guinea became the first independent nation of former French West Africa. Shortly thereafter economic policy shifted toward state-led development with the objective of modernizing and industrializing the country. Increasingly, private-sector activities were forced underground as an overstaffed public administration absorbed most of the surplus generated by the mining companies and impeded the development of private initiatives. The once dynamic agricultural sector returned to subsistence production, and Guinea transformed itself from a major exporter of agricultural products into a major bauxite exporter and a net food importer.

The state-led development approach failed, and modernization and industrialization were never achieved. Economic growth remained below the 2.8 percent yearly estimated demographic growth rate. The economy became increasingly dualistic: the official sector depended on bauxite exports for its income and functioned through an extensive system of administered prices linked to a highly overvalued currency, while the gradually expanding informal sector obtained its foreign exchange through clandestine exports and private transfers from abroad. By the early 1980s the informal sector satisfied about 80 percent of urban consumer demand and virtually all demand for marketed consumer goods outside Conakry. Urbanization accelerated as productive activities and incomes were increasingly shifted from the rural to the urban sector.

The government's financial position deteriorated severely mainly because of the poor performance of the state enterprise sector. Tax receipts and transfers from state-owned enterprises declined as parallel markets grew to dominate consumer trade, while budgetary subsidies to public companies expanded. As a result, the government was increasingly unable to provide services in health and education and the country's infrastructure deteriorated. External imbalances became unsustainable, chiefly as a result of poorly conceived investments that failed to generate returns adequate to service the associated external debt. Mounting debt service obligations and private capital flight resulted in a continual rise in foreign liabilities of the central bank and a massive accumulation of payments arrears, amounting to over $300 million at end-1985.

Economic and Financial Reform

The Military Committee for National Recovery, which took power in April 1984, initiated a dramatic change in Guinea's political and economic policies. In an effort to reverse the deterioration of the economy and redress financial imbalances, the new leaders embarked in late 1985 on a series of ambitious economic and financial reforms to establish a market-oriented economic system, supported by IDA, the IMF, and bilateral donors. The government moved to correct the serious overvaluation of the currency by an initial fifteen-fold devaluation. It also took steps to decontrol prices and liberalize internal and external trade, and introduced institutional reforms to promote private savings and investment. The measures reoriented public investment toward infrastructure for the productive sectors, privatized commercial and industrial activities, replaced defunct state banks by privately owned banks, and reduced the size of the civil service. These initial reforms yielded encouraging results. The economy grew at 4.5 percent in real terms between 1986 and 1989, almost 2 percent a year on a per capita basis. The economy adjusted quickly to the effects of devaluation, and inflation declined from 72 percent in 1986 to 28 percent in 1989. However, the response from modern sector investors was disappointing, for growth was concentrated in smallholder farming, small-scale enterprises, and the services sector.

During the second phase of adjustment, begun in 1988, progress was slower, partly because government needed to do more than simply dismantle inappropriate policies and practices. New reform policies and institu-

tions capable of sustaining the market-oriented economy were required, and their design and implementation was more difficult. Resistance was encountered in further restructuring public enterprises, and the pace of privatization slowed. The civil service reform proved to be difficult to implement, particularly the establishment of a mechanism to monitor and control personnel rolls and the wage bill and the set-up of permanent appropriate management procedures.

The second phase of the economic reform program was also accompanied by political reforms as progress was made toward greater democracy. Since the promulgation of a constitution in 1991 the press has been freed and political parties are allowed. Strikes and demonstrations are no longer prohibited. Free municipal elections took place in 1992. In December 1993 a president was elected in Guinea's first multiparty presidential elections; the vote indicated the existence of an active opposition albeit very much along ethnic lines. Legislative elections are scheduled in June 1995. These positive political developments have, however, introduced greater uncertainty into the conduct of economic policy and hindered the pace of reforms.

Guinea has made progress in disengaging the state from a direct role in managing public enterprises. The public monopoly for petroleum product imports and commercialization has been eliminated, and private distributors are operating in the country. The status of a number of public agencies has been changed to transform them into autonomous public enterprises as a first step toward privatization. In the key water and electricity utilities sector, management of production, distribution, and fee collection has been granted to private operators under performance-based contracts. Half the shares of the publicly owned telephone company have been offered for sale, and the government is actively considering reducing its participation in the capital of existing and future mining companies.

Nonmining revenues grew from 4.6 percent of GDP in 1988 to an estimated 7.4 percent in 1994. However, this improvement was not sufficient to compensate for a decrease in mining revenues due to the large fall in the price of aluminum after 1990, which led to a 19.7 percent drop in mining sector export receipts in 1992 and, after a year of stabilization in 1993, an estimated further drop of 13.3 percent in 1994. As a result, total government revenues fell from 14.4 percent of GDP in 1988 to an estimated 10.4 percent in 1994. Under these conditions, fiscal balance could only be achieved through drastic cuts in expenditures: current expenditures fell from 13.5 percent of GDP in 1988 to 9.4 percent in 1994, while capital expenditures decreased from 10.9 percent of GDP to 8.1 percent. The fiscal difficulties are straining the capacity of the state to increase the domestic financing share of public investments, which fell from 17.5 percent of total programmed amounts in 1993 to 16.4 percent in 1994. Under these difficult circumstances, Guinean authorities have by and large maintained the share of funds allocated to the social sectors.

As private investors worried by increased political uncertainty did not increase their share of investments in GDP, economic growth weakened from an average of 4 percent per year in the second half of the 1980s to 2.4 percent in 1991, and 3.0 percent in 1992, before increasing again to 4.7 percent in 1993 and an estimated 4 percent in 1994. Improved control over the budgetary deficit and monetary policy implementation helped reduce the inflation rate from 19.4 percent in 1990 to 7.1 percent in 1993 and an estimated 4.1 percent in 1994, contributing to a stabilization of the exchange rate.

Progress toward closing the current account deficit has been impaired by the drop in export revenues caused by a fall in the price of bauxite: the current account deficit (excluding public transfers) worsened from 8.9 percent of GDP in 1989 to 12.3 percent in 1992 before falling to 10.7 percent in 1993. Built-in lags in the price adjustment formula for bauxite initially cushioned the impact of the fall in the price of aluminum but will delay the positive effect of the recent strengthening in the aluminum market.

Poverty and Social Indicators

One of the major constraints to economic growth in Guinea is its weak human resource base. Lack of access to basic social services is reflected in low literacy rates, and high morbidity and mortality levels. These issues are particularly acute for women and children. Government policies under the current reform program aim at adjustment with social equity. Policy changes during the first phase of the adjustment process have shifted the terms of trade in favor of rural producers, the poorest segment of the population. With a view to cushioning the adverse effects of adjustment on vulnerable groups in urban areas, the government adopted a number of transitional measures during the first phase of the adjustment program. Authorities are currently taking steps to reorient budget and staff resources in the health and education sectors toward primary health care and education. These improvements in efficiency in the use of resources and larger budgetary allocations have resulted in improvements in social indicators, particularly in gross enrollment rates. However, sustained progress is hindered by the weak mobilization of fiscal revenues.

Medium-Term Prospects

The economic outlook for Guinea continues to be highly volatile as the economy continues to be heavily depend-

ent on one commodity, bauxite. The economic diversification and the acceleration of growth necessary to alter its poverty profile significantly can only be achieved through sustained economic management reforms. At the core of this adjustment effort are improvements in revenue mobilization and management of public resources. The achievement of the fundamental redefinition of the role of the state, which was started in 1985, will require significant qualitative and quantitative changes in the civil service to allow an active partnership in promoting private sector activity.

The expected increase in private investment resulting from these policies, along with enhanced efficiency in public investment, should result in real annual growth averaging about 4 to 5 percent beginning in 1995, leading to 2 percent yearly increases in per capita income. The revitalization of the agricultural sector over the last few years is expected to be sustained through a gradual shift toward the export market. Output growth in the industrial sector should average 3 to 4 percent annually, with continuing growth in small-enterprise activities, the expansion of mining activity outside the bauxite subsectors, such as diamonds and gold, rehabilitation of viable industrial enterprises, and increased construction activity. These developments, combined with reforms aimed at eliminating remaining constraints — particularly in transport — should help sustain the fast growth in the tertiary sector.

The bauxite and alumina sectors continue to account for close to 80 percent of Guinea's merchandise export receipts and 29 percent of the government's fiscal receipts in 1994, down from an average of 70 percent over 1987-90. Despite a relatively good performance of nonmining exports over 1990-94, the current account balance (excluding official grants) worsened in 1992 to 12.3 percent of GDP before lower capital imports by mining companies helped improve it to 10.7 percent in 1993 and an estimated 9.4 percent in 1994. While bauxite and alumina production and exports are expected to remain stable over the next several years, considerable growth can be expected in the volume of other exports, notably agricultural products and gold and diamonds if the economic reform program is sustained.

External Debt

External debt at end-1994 was equivalent to 84.7 percent of GDP and consisted almost entirely of public debt. Relations with most creditors are considered good, although an unresolved problem remains with Russia about the valuation of the debt denominated in rubles contracted under the First Republic. Debt service was equivalent to 18 percent of export earnings in 1994. In January 1995, Guinea reached an agreement with the Paris Club for a rescheduling of arrears accumulated until the end of 1994.

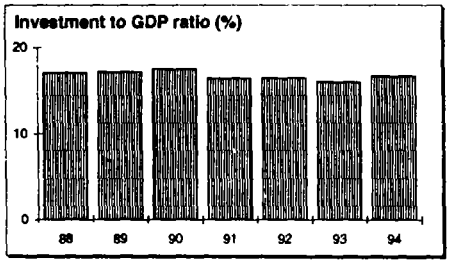
Guinea

Population mid-1993 *(millions)* **6.3**
GNP per capita 1993 *(US$)* **500**

Income group: **Low**
Indebtedness level: **Severely indebted**

KEY RATIOS

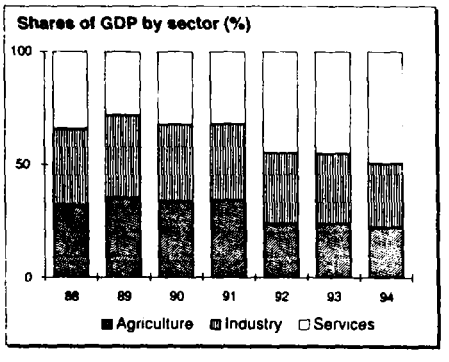
	1985	1990	1992	1993	1994
Gross domestic investment/GDP	..	17.5	16.5	16.1	16.7
Exports of goods and nfs/GDP	..	29.9	23.0	20.6	19.7
Gross domestic savings/GDP	..	16.8	10.0	9.0	9.3
Gross national savings/GDP	..	7.8	3.0	6.4	..
Current account balance/GDP	..	-6.5	-9.3	-8.8	-7.2
Interest payments/GDP	..	1.9	1.1	1.2	1.7
Total debt/GDP	..	87.6	89.3	90.3	86.5
Total debt/exports	..	292.2	387.6	435.3	421.5



GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	..	33.6	23.8	23.9	22.3
Industry	..	34.2	31.6	31.1	28.5
Manufacturing	..	3.5	4.5	4.6	4.3
Services	..	32.2	44.6	44.9	49.3

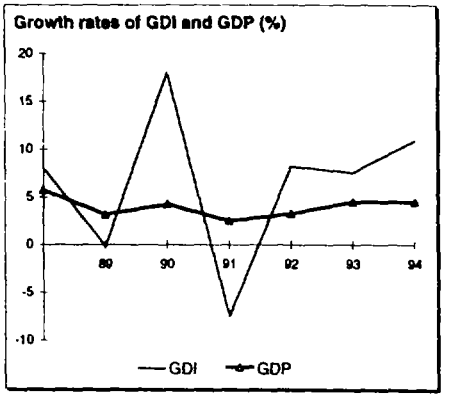
	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Agriculture	*2.2*	4.5	4.7	5.0	5.1
Industry	*5.3*	2.9	2.6	3.1	3.1
Manufacturing	*5.6*	*4.0*	3.8	5.0	..
Services	*4.8*	3.8	2.6	5.3	5.1
GDP	*4.1*	3.7	3.3	4.5	4.5



GDP: EXPENDITURE

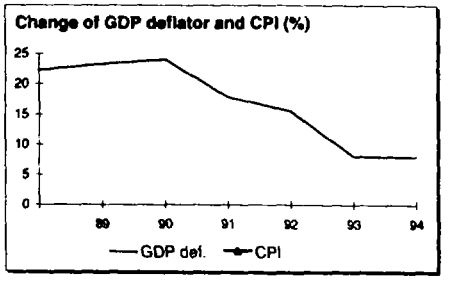
	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	..	71.3	79.3	83.8	81.3
General government consumption	..	11.9	10.7	7.3	9.4
Gross domestic investment	..	17.5	16.5	16.1	16.7
Exports of goods and nfs	..	29.9	23.0	20.6	19.7
Imports of goods and nfs	..	30.6	29.5	27.7	27.1

	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Private consumption	*3.5*	5.2	3.7	8.8	2.3
General government consumption	*-0.6*	-1.4	18.9	-35.4	36.4
Gross domestic investment	*8.5*	5.2	8.2	7.5	10.9
Exports of goods and nfs	*5.7*	1.1	-7.2	9.2	2.4
Imports of goods and nfs	*5.1*	4.1	1.2	6.2	8.1
Gross national product	*4.0*	4.7	4.2	5.9	4.3
Gross national income	*2.9*	3.3	2.1	3.7	5.3



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	..	..	..	..	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	..	24.0	15.6	8.1	8.0
Government finance					
(% of GDP)					
Current budget balance	..	3.4	2.2	5.7	2.8
Overall surplus/deficit	..	98.6	66.7	-3.8	-6.1

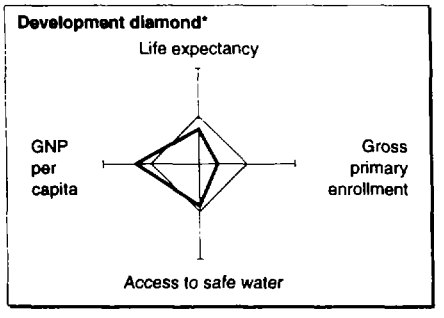


Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

POVERTY and SOCIAL

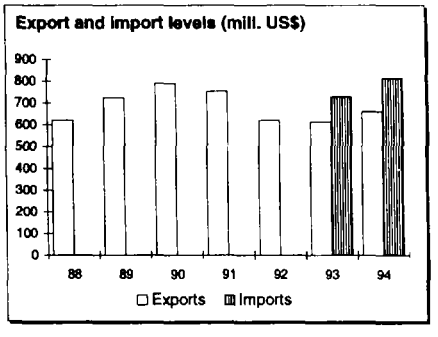
	1985-90	1990-94
(annual growth rates)		
Population	2.9	*3.0*
Labor force	1.7	1.8

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	44.9
Infant mortality *(per 1,000 live births)*	132.0
Child malnutrition *(% of children under 5)*	18.0
Access to safe water *(% of population)*	60.0
Energy consumption per capita *(kg oil equivalent)*	65.7
Illiteracy *(% of population age 15+)*	76.0
Gross primary enrollment *(% of school-age population)*	42.0



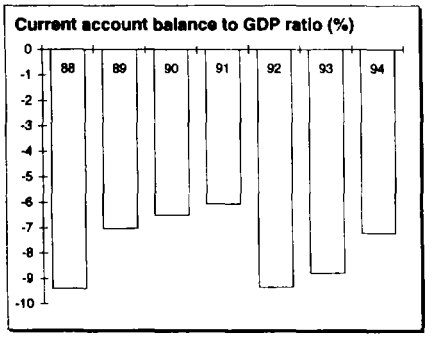
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	..	789	621	614	662
Other metals	..	447	343	332	350
Aluminum	..	166	107	106	105
Manufactures	..	..	..	..	..
Total imports (cif)	..	..	..	730	813
Food	..	..	..	54	42
Fuel and energy	..	..	..	72	57
Capital goods	..	..	..	110	198
Export price index *(1987=100)*	..	..	..	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP,%)*	..	61	53	48	47



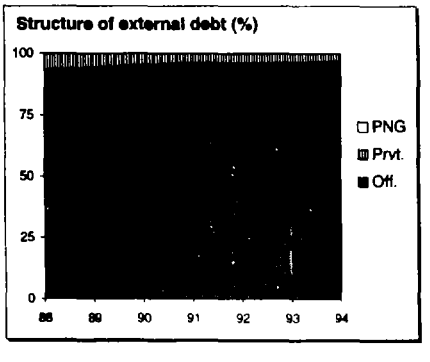
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	..	842	684	655	705
Imports of goods and nfs	..	758	752	879	968
Resource balance	..	85	-68	-224	-264
Net factor income	..	-228	-146	-90	-103
Net current transfers	..	-40	-64	35	113
Current account balance					
Before official transfers	..	-184	-278	-279	-253
After official transfers	..	-83	-144	-279	-253
Long-term capital inflow	..	-73	239	26	48
Total other items (net)	..	118	-63	302	201
Changes in net reserves	-2	38	-32	-49	4
Memo:					
Reserves excluding gold *(mill. US$)*	..	..	87	132	..
Reserves including gold *(mill. US$)*	..	..	87	132	..
Conversion rate *(local/US$)*	24.3	660.2	902.0	955.5	976.7



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	..	265.5	360.5	406.6	396.6
IMF credit/exports	..	6.1	9.3	9.2	15.9
Short-term debt/exports	..	20.6	17.8	19.5	9.0
Total debt service/exports	..	19.9	12.4	12.7	18.0
GDP ratios					
Long-term debt/GDP	..	79.6	83.1	84.4	81.4
IMF credit/GDP	..	1.8	2.1	1.9	3.3
Short-term debt/GDP	..	6.2	4.1	4.0	1.9
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	15.8	4.8	4.2	3.9	3.2
Official creditors/long-term	84.2	95.2	95.8	96.1	96.8



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Guinea-Bissau

Guinea-Bissau is a small country on the West African coast with about 1 million inhabitants. With an estimated 1993 per capita income of about $240, it is among the poorest in the world. Annual population growth is about 2.0 percent, and the economy is characterized by a large traditional rural sector, producing primarily for subsistence. Agriculture, fisheries, and forestry account for about 90 percent of employment and almost 45 percent of GDP. While urban informal activity is strong, it has not been captured in statistics. Marketed output is largely confined to export crops, primarily cashews, groundnuts, palm kernels, and wood; in 1993 cashews, groundnuts, and fish accounted for about 87 percent of total exports of goods. Rice is the main food crop. In the 1950s Guinea-Bissau was a net exporter of rice (around 40,000 tons annually); however, since 1962 it has been a net importer. Although local production has increased, rice imports still remain high. As of late 1994, Guinea-Bissau has, for the first time since independence, a democratically elected government.

In 1974 Guinea-Bissau faced the task of rebuilding its economy after a protracted liberation war dislocated about a fifth of the population, destroyed an important part of the economic infrastructure, and reduced output of the main crops by over one-third. An ambitious public investment program financed mainly by external borrowing focused on the manufacturing sector and neglected agriculture. Inappropriate pricing policies, an increasingly overvalued exchange rate, and an inefficient marketing system prevented recovery of agricultural production, depressed official exports, and stimulated the parallel market. Severe fiscal imbalances resulting from a rapid rise in government expenditures and limited growth in revenues were increasingly financed by central bank credit, fueling inflation. Over 1980-82, the external situation was further aggravated by exogenous factors such as drought and depressed world market prices for the country's main exports. The balance of payments deteriorated rapidly, exacerbated by external debt service payments and accumulated external arrears.

Structural Adjustment Program

In 1983 the government broke with the policies of the postindependence decade and initiated an economic recovery program supported by IDA and the IMF. Despite some initial success, however, the program lost momentum in 1985, largely because of the government's inability to control the fiscal deficit and credit expansion. In 1987 the government renewed efforts to revitalize the deteriorating economy and launched a far-reaching structural adjustment program designed to maintain fiscal and monetary discipline, achieve positive real interest rates, liberalize prices, remove trade distortions, reduce export taxes, improve public resource management, promote public sector reform, and move toward a flexible and market-oriented exchange rate.

After a promising start, macroeconomic performance over 1989-93 was mixed. Some progress was made in 1990 in controlling the fiscal deficit, but in 1991 there were revenue shortfalls and large expenditure overruns. The adverse trends continued in the first half of 1992, but expenditure cutbacks introduced in the second half of the year helped to reduce the fiscal imbalance. Monetary and credit policies were also expansionary throughout 1991 and much of 1992. The result was that after declining in 1990, the inflation rate increased throughout 1991, reaching an annual rate of 70 percent in 1992. Beginning in November 1992, the government, which had been using the Portuguese escudo to anchor the its currency, began to use the dollar as the standard; this remains the currency against which the crawling peg is anchored.

Since late 1992 the authorities have shown a strengthened commitment to redress the country's declining economic and financial situation. In late February 1993 the authorities agreed with the IMF on a demanding shadow program whose overall aim was to boost budgetary revenues while cutting current outlays. Estimates for 1993 indicate that even though some of the targets were not fully met, actions taken over the year have started to show results. From 1992 to 1993, the annual average rate of inflation was reduced from 70 to 48 percent, and the overall fiscal deficit (excluding grants)

came down from 38 to 28 percent of GDP. Meanwhile, the government managed the exchange rate flexibly, which allowed the spread between the official and parallel market rates to be reduced from 5 percent at end-1992 to 3.7 percent at end-1993. Real GDP growth rate for 1993 reached about 2.7 percent.

Preliminary indications show that in 1994 there was a further moderation in the annual average rate of inflation to about 15 percent against a programmed target of 17 percent. The primary fiscal surplus is estimated to have been lower than programmed, representing about 1.6 percent of GDP against a target of 5.5 percent. Lower than projected capital expenditures, helped to reduce the overall fiscal deficit (excluding grants) to about 23.6 percent of GDP, about 1.3 percentage points higher than programmed. The shortfall in reaching the agreed fiscal targets was mostly due to the fact that revenues from selling fishing licenses were 34 percent lower than projected and current spending was about 19 percent higher than programmed.

During the period 1987-93 Guinea-Bissau evolved from a rigidly controlled central command economy into a largely free market economy. The price and exchange rate system has been liberalized. The public sector, which had been overextended and highly inefficient, has undergone major transformations, although progress has been slower than initially anticipated. Key enterprises have been privatized and others rehabilitated, some of which are now under private management. The civil service was scaled back by about 2.5 percent in fiscal 1993 through a voluntary departure scheme. The financial sector has emerged from being dominated by a single state-owned bank, which performed central and commercial bank functions, to having a central bank and two competing banks — one the branch of a private foreign bank and the other a privately administered joint venture between local and foreign private investors and the government.

Trade distortions have been virtually eliminated. Export taxes have been reduced. The liberalization of prices has been one of the most successful areas of the program. Prices have been liberalized, with the exception of petroleum products and public utilities, which are adjusted regularly to reflect changes in costs. During 1994 progress on the structural front fell short of expectations, especially in the areas of tax and public enterprise reforms. Nevertheless, the government has implemented some important measures. The civil service was retrenched by a further 5 percent. The port service charge on imports of rice was increased by 10 percent to enhance budgetary revenues, and export taxes were further reduced. Liquidation of the state petroleum distribution company has been initiated.

Progress on privatization and rehabilitation has been uneven. At the beginning of the adjustment program, the public enterprise sector comprised 39 enterprises, generating about 9 percent of GDP. The electricity and water utility is now operated under a management contract, and one of the two previously government-owned hotels has been privatized and the other put under private management. Four manufacturing and commerce enterprises have been privatized and two leased to private entrepreneurs; and two tourist resorts put under private management. Following the decision to liberalize imports of petroleum products, the authorities are committed to liquidating the state-owned petroleum importing and distribution company, and the port authority and the telecommunications company have been privatized. A technical unit to coordinate the reform has been established to ensure a transparent and objective process.

At the start of the program, Guinea-Bissau's only bank performed the functions of central, commercial, and development banking. During most of the 1987-92 period a combination of lax credit policies and negative real interest rates resulted in a credit explosion to the private sector and public enterprises. In March 1990 the central bank was established as the monetary authority. Since then, two commercial banks have been created. To reverse the deterioration of the monetary situation, the monetary authorities limited the growth of broad money, which slowed to 40 percent in 1993, from 111 in 1992, with the help of a boost in interest rates to positive real levels. In view of the rapid deceleration in inflation during 1994, the nominal interest rate structure was adjusted downward, but was still kept positive in real terms. Monetary developments in 1994 were less than satisfactory, given 49.5 percent broad money growth, well above the programmed 21.5, due to a significant increase in credit to the economy, particularly toward the end of the year. The central bank has decided not to grant any more guarantees on behalf of the private sector and has discontinued the practice of obtaining loans on behalf of the government.

The adjustment program has led to profound changes in the economy and had a strong positive impact. GDP grew steadily in real terms at an annual average rate of about 4.5 percent between 1987 and 1993. In 1994 real economic growth was higher than expected, with preliminary estimates pointing to a rate higher than 6 percent. Private-sector investment has been growing since the reform program was launched, albeit from a very small base. Domestic savings, however, continue to be negative.

The current account deficit, excluding official transfers, widened from 26 percent of GDP in 1990 to about 48 percent in 1992, falling back to 28 percent in 1993, despite a downturn in the terms of trade, as imports were

compressed sharply. In 1994 a good cashew harvest plus a significant reduction of excessively high stocks allowed Guinea-Bissau to reach record exports. Exports of about $33 million, almost 23 percent higher than projected, combined with imports about 20 percent lower than programmed, reduced the current account deficit, excluding official transfers, to an estimated 19.5 percent of GDP, about 8 percentage points below the programmed target. The current account deficit has been financed by higher than projected grants, slightly lower than programmed concessional loans, and an accumulation of debt-service arrears.

Medium-Term Prospects

The recently elected government reaffirmed its commitment to the 1994-97 reform program emphasizing restrictive fiscal and monetary policies, coupled with bold structural measures so that Guinea-Bissau can achieve sustained, broad-based, and private-sector-led growth. Agriculture will continue to be the main engine of growth, given the potential for increasing production, processing, and marketing of rice and other cereal grains, cashews, fruits, vegetables, and forestry resources. Barring unexpected exogenous shocks, this sector is expected to grow at about 6 percent a year over the next five years. Fisheries, commerce, and services represent additional potential sources of growth. Domestic resource mobilization will be strengthened and public enterprise reforms stepped up. Increased efficiency in government development expenditures will allow them to be reduced to about 21 percent of GDP in coming years, so that expenditures can be reoriented toward human capital and infrastructure development. Expanding rural extension services and applied research, providing better primary education and health care services, improving infrastructure, ensuring reliable energy supplies, and establishing an enabling environment for private sector development will be priorities.

Private investments are expected to play an increasingly larger role in the development process. The government is committed to addressing the needs of the most vulnerable groups by giving priority to employment creation, improving the quality of social services and providing some direct safety nets. Nevertheless, given the starting point and the price prospects for exports, the Guinea-Bissau will continue to be one of the poorest countries in the world well into the next century.

External Debt

Guinea-Bissau's debt is extremely high. At end-1993 its debt service ratio was about 194 percent, while medium- and long-term external public debt remained in excess of 260 percent of GDP. The government obtained debt relief from Paris Club members in 1987 and 1989. However, as postrescheduling debt service remained high, new arrears have accumulated, and a Paris Club meeting in February 1995 granted "Naples" terms to handle the unusually large debt service.

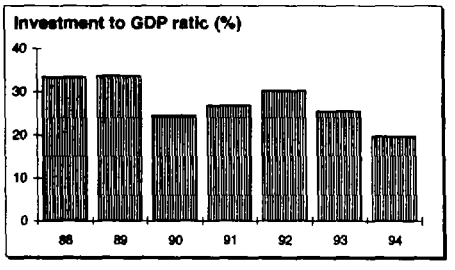
Guinea-Bissau

Population mid-1993 *(millions)* **1.0**
GNP per capita 1993 *(US$)* **240**

Income group: **Low**
Indebtedness level: **Severely indebted**

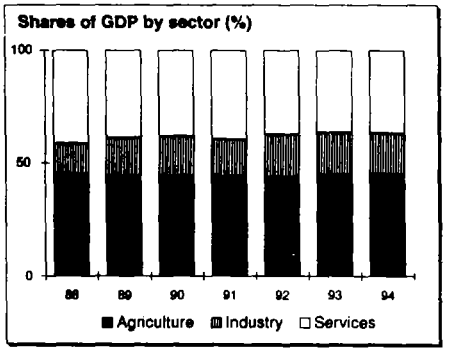
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	40.8	24.5	30.3	25.6	19.7
Exports of goods and nfs/GDP	8.9	11.0	8.1	10.6	18.7
Gross domestic savings/GDP	-2.9	-6.6	-18.0	-0.3	1.9
Gross national savings/GDP	-3.9	-1.0	-18.1	0.2	3.1
Current account balance/GDP	-44.5	-25.6	-48.5	-25.4	-16.6
Interest payments/GDP	1.4	1.4	1.3	0.8	0.8
Total debt/GDP	193.4	256.1	296.6	286.5	314.6
Total debt/exports	1,517.4	1,235.5	2,087.7	1,895.1	1,378.3



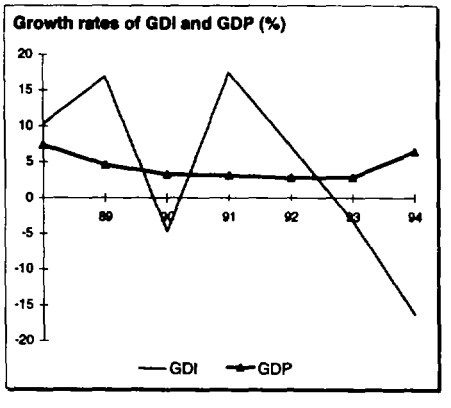
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	42.4	44.0	43.8	44.8	45.0
Industry	14.3	18.0	19.1	19.0	18.5
Manufacturing	..	8.1	8.4	8.0	7.5
Services	43.3	38.0	37.1	36.2	36.5
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	7.3	4.7	3.6	5.3	7.3
Industry	-5.1	2.3	5.2	1.3	1.9
Manufacturing	-4.7	0.0	-1.4	1.2	1.5
Services	5.3	2.3	1.0	-0.2	6.4
GDP	4.8	3.6	2.8	2.8	6.4



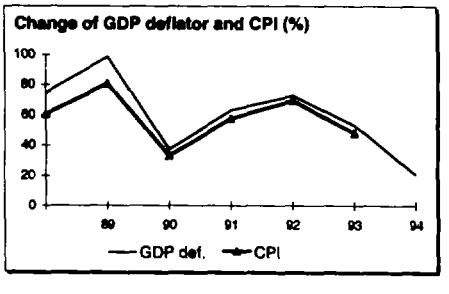
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	86.6	96.0	108.8	93.3	90.2
General government consumption	16.4	10.6	9.1	6.9	7.9
Gross domestic investment	40.8	24.5	30.3	25.6	19.7
Exports of goods and nfs	8.9	11.0	8.1	10.6	18.7
Imports of goods and nfs	52.6	42.2	56.4	36.5	36.5
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	1.8	1.1	26.8	-17.2	3.2
General government consumption	5.1	5.3	8.0	-5.0	20.2
Gross domestic investment	6.2	0.7	7.2	-3.3	-16.3
Exports of goods and nfs	14.0	-6.2	-70.2	63.8	101.7
Imports of goods and nfs	2.7	-5.7	21.3	-32.6	0.3
Gross national product	5.1	2.2	4.4	0.7	7.1
Gross national income	4.5	4.2	10.8	0.5	7.0



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	..	33.0	69.6	48.1	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	44.9	37.3	72.8	53.5	20.7
Government finance					
(% of GDP)					
Current budget balance	-14.5	2.8	-4.1	-2.7	0.0
Overall surplus/deficit	..	..	..	..	-21.9



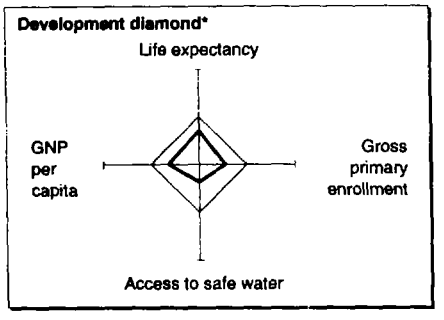
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Guinea-Bissau

POVERTY and SOCIAL

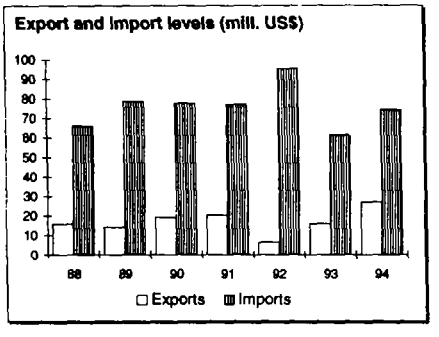
	1985-90	1990-94
(annual growth rates)		
Population	2.0	*2.1*
Labor force	1.4	1.6

	most recent estimate
Poverty level: headcount index *(% of population)*	49.0
Life expectancy at birth	43.9
Infant mortality *(per 1,000 live births)*	137.8
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	24.9
Energy consumption per capita *(kg oil equivalent)*	37.0
Illiteracy *(% of population age 15+)*	63.5
Gross primary enrollment *(% of school-age population)*	60.0



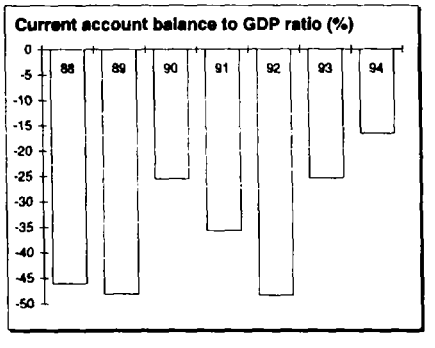
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	12	19	6	16	27
Groundnuts	5	12	3	13	23
Other food	3	3	1	1	1
Manufactures	..	..	..	..	..
Total imports (cif)	69	78	95	62	74
Food	17	15	32	25	27
Fuel and energy	9	8	5	3	3
Capital goods	13	26	34	14	21
Export price index *(1987=100)*	..	80	86	130	121
Import price index *(1987=100)*	..	122	123	117	126
Terms of trade *(1987=100)*	..	66	70	110	96
Openness of economy *(trade/GDP,%)*	62	53	64	47	55



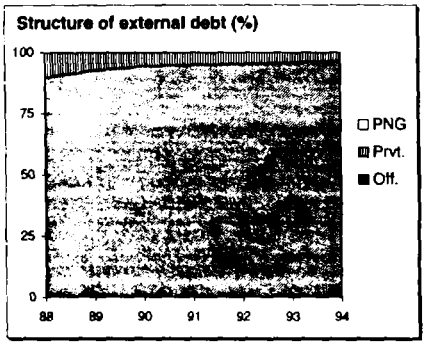
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	20	26	18	26	45
Imports of goods and nfs	82	100	125	88	89
Resource balance	-62	-74	-107	-62	-43
Net factor income	-5	12	0	-5	-3
Net current transfers	-3	1	-1	6	6
Current account balance					
Before official transfers	-70	-60	-108	-61	-40
After official transfers	-40	-16	-68	-25	7
Long-term capital inflow	38	13	13	-13	-11
Total other items (net)	18	21	60	29	-2
Changes in net reserves	-17	-18	-5	9	6
Memo:					
Reserves excluding gold *(mill. US$)*	..	18	18	14	..
Reserves including gold *(mill. US$)*	..	18	18	14	..
Conversion rate *(local/US$)*	160.0	2,185.5	6,933.9	10,081.9	12,892.1



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	1,301.5	1,137.1	1,923.4	1,735.9	1,360.2
IMF credit/exports	15.4	10.8	16.5	12.9	9.0
Short-term debt/exports	200.5	87.6	147.8	146.3	9.0
Total debt service/exports	46.3	16.9	22.8	9.9	5.4
GDP ratios					
Long-term debt/GDP	165.8	235.7	273.2	262.4	310.4
IMF credit/GDP	2.0	2.2	2.3	1.9	2.1
Short-term debt/GDP	25.5	18.1	21.0	22.1	2.1
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	15.3	5.7	4.8	4.3	3.6
Official creditors/long-term	84.7	94.3	95.2	95.7	96.4



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete

Kenya

Kenya is a low-income country with a per capita income that declined from $340 in 1991 to $270 in 1993. The decline reflects stagnant income, population growth, and exchange rate depreciation over the period. The population growth rate fell from 3.6 percent in 1984 to about 3 percent in 1993, reflecting a sharp decline in fertility rates. About three-quarters of Kenya's land area is classified as arid or semi-arid. Its economy is heavily dependent on agriculture, which employs about 70 percent of the labor force and contributes about 29 percent of GDP. Coffee and tea account for over 40 percent of merchandise exports. The service sector, including tourism, accounts for about 54 percent of GDP and is an important source of employment. Tourism is Kenya's leading foreign exchange earner. The industrial sector is relatively developed and diversified, contributes about 17 percent of GDP, and employs close to 8 percent of the labor force. Kenya is not an oil-producing country, but it has a refinery in Mombasa that supplies the domestic and regional export markets.

Trends in the 1960s and 1970s

Kenya's first decade after independence in 1963 was one of remarkable growth and structural change, with real GDP growth averaging more than 8 percent a year. Agricultural expansion was stimulated by converting high-potential land to extensive smallholder cultivation, introducing high-value production activities, and adopting high-yielding maize varieties. Manufacturing growth was largely due to expanding domestic demand supported by rising agricultural incomes, the encouragement of investment through high levels of protection, a liberal attitude toward foreign investment, and an active government role in industrial promotion and investment.

GDP growth decelerated after the 1973 oil crisis, averaging 5.4 percent over 1973-80. In addition to the effects of rising oil prices, this slowdown reflected the emergence of structural constraints. Agricultural growth slowed as the margin of untapped potential narrowed, but also because of inappropriate government policies such as extensive and inefficient public sector involvement in marketing. Industrial growth slowed because the incentive structure favored the domestic market over exports and led to an increasingly inward-looking sector with declining opportunities for efficient import substitution. These factors were exacerbated by the collapse of the East African Community. There were also negative developments on the stabilization front, with the erosion of fiscal discipline after the coffee boom of the late 1970s and subsequent deterioration in the external terms of trade due to the second oil shock.

Developments in the 1980s

Annual GDP growth slowed to 3 percent over 1980-85 in response to these stabilization problems and political uncertainty resulting from an attempted coup in 1982 and a severe drought in 1984. By the mid-1980s stabilization efforts had begun to bear fruit and economic growth started to recover. Growth in the 1986-90 period was impressive, at 5.6 percent on average. However, the improvement in macroeconomic stability was short-lived, as fiscal discipline weakened once again in the wake of a modest 1986 coffee boom, and Kenya began to face renewed macroeconomic imbalances. Increases in public sector employment pushed up the budget deficit and monetary expansion fueled inflation. Largely because of this expansion, adverse terms of trade, and slow growth in nontraditional exports, the current account deficit remained high.

Macroeconomic Performance Since 1990

The 1991-92 period was marked by a sharp decline in all major macroeconomic performance indicators. Real GDP growth fell to 1.4 percent in 1991 — and -0.8 percent in 1992. Agricultural production was adversely affected by unfavorable weather. Investment, which averaged 24 percent of GDP over 1986-90, dropped to 21.3 percent in 1991 and 17.5 percent in 1992. External imbalances worsened as a consequence of the Persian Gulf crisis during 1990-91, and arrears began to accumulate on external debt.

At the November 1991 consultative group meeting bilateral donors announced that they were postponing

aid pledges, citing a variety of concerns, including poor macroeconomic and structural policy performance, and issues of governance, human rights, and corruption. A subsequent decision by multilateral donors to withhold balance of payments support was, however, largely driven by concerns about economic policy failure.

In April 1992 the government agreed with the IMF on a program of actions necessary to reestablish a sound macroeconomic framework. IMF and IDA review missions in September 1992 and March 1993 found that monetary targets for 1992 had been substantially exceeded because of abuse of the preshipment export financing scheme, and central bank provision of large overdrafts and rediscounts to some commercial banks. The excessive growth in monetary aggregates fueled inflation, which accelerated sharply from about 20 percent in 1991 to around 100 percent (on an annualized basis) in the second quarter of 1993. On the fiscal side, election-related expenses and larger than anticipated export compensation payments caused the 1992/93 deficit (excluding grants) to quickly exceed the 3.6 percent of GDP target. These imbalances undermined the external reforms, including the 50 percent exchange retention extended to traditional exporters, implemented under the program. The spread between the official rate and the interbank market rate widened, and Kenya accumulated further external payments arrears.

With the macroeconomic program off track and some IDA sector-specific conditions unfulfilled, Kenya's IDA and IMF programs came to a halt. Their programs were restarted after an April 1993 agreement on an action program.

On the external front, several devaluations of the Kenyan shilling in the spring of 1993 raised the official nominal exchange rate from KSh36 to KSh64 to the dollar, narrowing the interbank premium to about 10 percent. At the same time, export retention at a flat rate of 50 percent was reintroduced for all exporters and all import controls (other than a short negative list) were lifted.

Concurrently, the central bank began to mop up excess liquidity by issuing treasury bills at high nominal rates, raising statutory cash ratios, and reducing access to its rediscount and overdraft facilities. The effectiveness of the measures to absorb excess liquidity was compromised, however, by continued irregularities in interbank and foreign exchange transactions, which continued to add to liquidity even as open-market operations attempted to mop it up. The budgetary cost of this policy failure was eventually reflected in large interest payments due to T-bill holders, which increased the budget deficit for 1992/93 (excluding grants) to 10.4 percent of GDP. The failure to enforce monetary policy was ultimately addressed in July by a change in the management of the central bank, and by the subsequent closure of four commercial banks and a number of nonbank financial institutions. In July 1993 monetary policy was effectively tightened, and the economy began to stabilize. Annualized inflation fell to 55 percent in the third quarter of 1993 from the 100 percent level in the previous quarter, and nominal treasury bill rates declined. The market-determined interbank exchange rate appreciated from around KSh82 to the dollar at end-June 1993 to about KSh70 in late September 1993. This paved the way for the unification of the official and market exchange rates in October 1993.

These improvements in the policy environment facilitated negotiation, in November 1993, of a one-year Extended Structural Adjustment Facility with the IMF and an ambitious reform agenda under for 1994-96. The reform agenda included a target fiscal deficit of 6.1 percent of GDP (excluding grants) in 1993/94 and, on the structural side, liberalizing the maize market, deregulating the petroleum sector, eliminating all remaining price controls, and reducing import tariffs and eliminating export taxes. The government program also called for performance contracts with key parastatals, divestiture of 25 non-strategic parastatals including specific entities in 1994, and reducing the civil service. Based on these policy reforms, a consultative group meeting was held in late November 1993, and donors indicated new commitments for 1994 totaling $850 million. In January 1994 the government was also able to reschedule payment of its arrears on external debt with the Paris Club group of creditors.

Government achievements in the macroeconomic area have been close to program targets. There was some slippage in fiscal performance as the 1993/94 deficit target of 6.1 percent was exceeded by 1.3 percentage points of GDP, largely due to debt service payments on behalf of parastatals and unauthorized budgetary expenditures. However, real GDP growth in 1994 was estimated at about 3 percent, reversing the decline over 1991-93, and inflation was sharply contained, with end-1994 inflation lower than projected under the IMF program. The most notable improvement was in Kenya's external accounts, with official reserves reaching 3.6 months of imports, nearly double the program target of 1.9 months.

Implementation of structural reforms was more mixed. Exchange controls were removed, including restrictions on inward portfolio investment, and Kenya accepted the obligations of Article VIII of the IMF Articles of Agreement. Liberalization of the petroleum market was accomplished in October 1994, and civil service reform is generally on track, with retrenchments at the rate of 16,000 staff and positions per year. Removal of price and movement controls on maize, the staple crop, was accomplished ahead of schedule, but the government's commitment to maintaining a liberal-

ized market for international trade in maize was brought into question in August 1994 when maize imports were temporarily suspended before being replaced by a variable levy. While the licensing requirement for exporting maize has been removed, effective authority to export maize remains subject to approval by the National Cereals and Produce Board. That board's role remains a major source of concern, as it has continued to intervene in the domestic market in a manner that imposes large budgetary costs while undermining private-sector trade in maize. Privatization of small nonstrategic parastatals has been ongoing, although the process has not met expectations of transparency, and Kenya's commitment to carry out privatization of the more significant entities remains to be tested. Progress in the management of the major parastatals — such as telecommunications and the port authority — has been disappointing, particularly in restructuring, and implementing performance contracts. Legislation to amend the State Corporation Act, to put in place some aspects of an arms-length relationship between the government and parastatal management, remains to be considered by the next session of parliament.

Recent Political Developments

Kenya has been engaged in the transition to a multiparty democracy since December 1991, when opposition parties were legalized and the electoral process was reformed. Multiparty elections were held in December 1992, and the results, in the opinion of most foreign observers, broadly represented the will of the electorate. Benefiting from a divided opposition, the ruling Kenya African National Union party returned to power, along with its candidate for president. In the post-election period, the opposition has had some success in holding the government to parliamentary accountability, but has been subjected to intermittent harassment and intimidation by the government. Press reporting on government policy failures and cases of corruption has been relatively unrestricted, although there have been instances of harassment and censorship of publications sympathetic to the opposition. Clashes between Kenyan tribal groups since 1991 that caused a loss of lives, destruction of property, and the internal displacement of an estimated 250,000 people have reduced in frequency in the past year, but the underlying tension remains high and the possibility of new clashes cannot be ruled out.

Historically, economic reforms in Kenya have advanced in fits and starts. Reforms to date have put in place a system in which administrative discretion in resource allocation has been substantially diminished. Given the newness of these reforms, it is too early to be confident as to their permanence and the sustainability of the reform process itself.

Poverty and Social Indicators

The real prospect of rising unemployment and increasing poverty is the crucial medium- and long-term development issue confronting Kenya; a recent poverty assessment has concluded that the incidence of poverty did not improve in the 1980s and early 1990s. The percent of population in poverty was estimated to be around 45 percent in rural areas and about 30 percent in urban areas. However, the period saw an increase in the depth of poverty, measured by the difference between the actual consumption of the poor and the minimum requirement of 2,250 calories per adult equivalent and some essential nonfood expenditures. The lack of sustained economic growth is the primary cause of income poverty in Kenya.

Kenya has experienced a dramatic drop in the fertility rate — from 7.7 in 1984 to 6.7 in 1989, and 5.4 in 1992 — suggesting that a demographic transition is under way. Underlying the decline in fertility is an increase in contraceptive prevalence, from 7 percent in 1977 to 33 percent in 1993. Despite this fertility decline Kenya's population will continue to grow rapidly because there are large numbers of women entering their childbearing years.

The Environment

Poverty and population pressures on limited land resources are the main contributors to environmental degradation in Kenya. Environmental problems are particularly severe in arid and semi-arid regions, which are more susceptible to ecological damage resulting from population pressures. The government adopted a national environmental action plan in June 1994 and is expected to focus on implementation modalities over the coming year.

Progress in Reform

In August 1993 the government formally adopted a comprehensive civil service reform program and established a secretariat to manage the program's implementation. The major objective is to enhance the efficiency and improve the client focus of a streamlined civil service. The program aims to retrench about 74,000 staff (out of a total complement of about 270,000) and positions by 1996/97 while strengthening the policymaking and implementation capacity of key ministries and the central bank. Six of the 23 ministries have been selected for restructuring during 1995-96 in the first phase of the reform, with a further six to be identified by mid-1996 for similar restructuring.

In 1991 the government announced its intention to carry out a comprehensive parastatal privatization and

restructuring program, but progress on achieving parastatal reform has fallen well short of target, and the transparency of the approximately 50 privatizations that have been conducted (either fully or partially divested) has been unsatisfactory.

A 1990 World Bank study suggested that agriculture could grow at 4 percent a year through 2000 if the policy environment was improved and technological support provided. Recent developments are encouraging: markets for all agricultural commodities have been liberalized and the role of marketing parastatals — except for the cereals board — is being restricted. In parallel to attempts to increase the scope for private activity, the Ministry of Agriculture, Livestock Development and Marketing is being restructured to make it more responsive to a sector increasingly dominated by the private sector. The government has indicated its intention to rationalize the role and structure of the Kenya Agricultural Research Institute to improve technology generation and dissemination.

Years of neglecting maintenance has exacted a toll on public infrastructure in Kenya. Sections of the highway system and urban and peri-urban roads need complete reconstruction, and much of the rural road network requires major rehabilitation. Water supply schemes that have deteriorated in the past decade need to be rehabilitated and expanded, especially in the coastal region. Adequate funding of maintenance, particularly road maintenance, is a priority area for claim on government expenditure. Inefficiencies in the infrastructure parastatals has also contributed to declining quality of services. The movement capacity of Kenya Railways has declined significantly, and this has contributed to the decreasing level of service provided by Mombasa port. In energy, the problem is also one of inadequate investment, which is likely to become a severe constraint to national development if not undertaken quickly. The government has liberalized the petroleum market and plans to address other constraints on the sector by restructuring the power subsector, encouraging private-sector participation, and ensuring appropriate pricing.

Regional Economic Integration

Over the past two years, Kenya has resumed active discussions with Uganda and Tanzania toward reviving East African cooperation in trade, transport and communications, finance, and investment, as well as regional immigration and security. In November 1994 the three heads of state issued a communiqué indicating the establishment of a secretariat in Arusha to facilitate East African cooperation and formulate steps toward strengthening regional institutions. The communiqué also indicated the intention of the three governments to implement the provisions of the 13-country Cross Border Initiative, including steps to harmonize tariff rates and simplify customs procedures and consider the possibility of forming a customs union.

Medium-Term Prospects

The prospects for achieving the growth scenario envisaged for 1995-97 will depend on the effective implementation of structural adjustment measures to address the key development issues identified above. If macroeconomic stability is maintained and reforms are pursued vigorously, GDP growth could reach 5 to 6 percent in 1995-97, allowing per capita income growth of over 2 percent a year.

External Debt

Over the period 1994-96, Kenya's current account balance (excluding official transfers) is projected to decline slightly, moving from a small surplus in 1994 to a deficit of less than 1 percent of GDP in 1997. As noted earlier, accumulated external debt arrears as of end-1993 have been rescheduled over the period 1995-2001. Due to the refinancing of arrears, amortization of existing debt is projected to increase in dollar terms by 1996. However, the overall scheduled debt service ratio is expected to drop from about 28 percent in 1994 to about 23 percent in 1997.

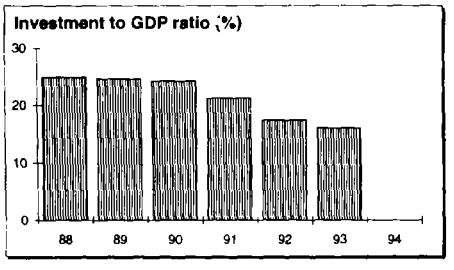
Kenya

Population mid-1993 *(millions)* **25.3**
GNP per capita 1993 *(US$)* **270**

Income group: **Low**
Indebtedness level: **Severely indebted**

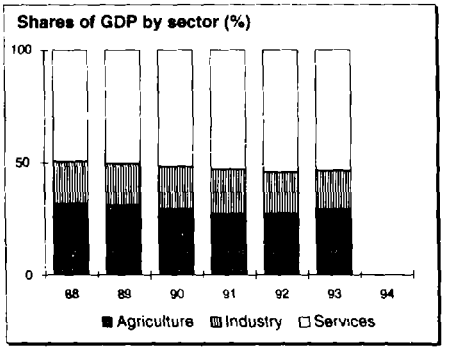
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	26.0	24.3	17.5	16.1	..
Exports of goods and nfs/GDP	25.3	26.2	27.1	42.0	..
Gross domestic savings/GDP	24.9	19.1	17.6	21.1	..
Gross national savings/GDP	22.6	15.8	13.5	17.0	..
Current account balance/GDP	-7.0	-7.5	-4.1	0.9	..
Interest payments/GDP	2.7	2.8	2.6	3.7	..
Total debt/GDP	68.5	83.5	84.3	126.3	..
Total debt/exports	265.1	319.6	310.3	299.4	..



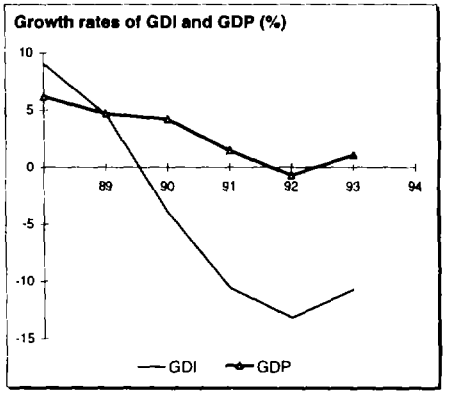
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	32.5	29.1	27.1	28.9	..
Industry	19.1	19.1	18.7	17.6	..
Manufacturing	11.7	11.8	11.2	10.4	..
Services	48.4	51.7	54.2	53.5	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	4.3	*-2.7*	-3.3	-3.8	..
Industry	5.2	*0.9*	0.0	0.4	..
Manufacturing	5.8	*2.2*	1.2	1.8	..
Services	5.4	*3.0*	2.9	2.3	..
GDP	5.6	*0.5*	-0.7	1.1	..



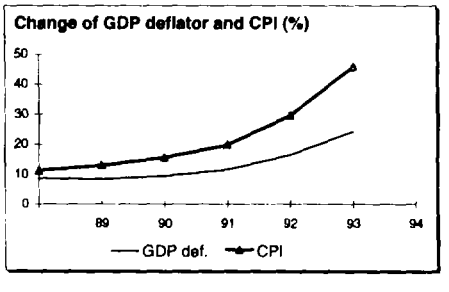
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	57.6	62.2	66.2	65.8	..
General government consumption	17.5	18.7	16.2	13.1	..
Gross domestic investment	26.0	24.3	17.5	16.1	..
Exports of goods and nfs	25.3	26.2	27.1	42.0	..
Imports of goods and nfs	26.4	31.4	27.0	37.0	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	8.5	*0.9*	-0.2	0.4	..
General government consumption	3.2	*7.6*	9.1	7.3	..
Gross domestic investment	4.0	*-11.6*	-13.2	-10.7	..
Exports of goods and nfs	7.3	*0.5*	-0.9	3.8	..
Imports of goods and nfs	10.4	*-2.7*	-2.3	-1.3	..
Gross national product	5.3	*0.0*	0.1	-0.9	..
Gross national income	4.9	*1.8*	1.0	1.3	..



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices[a]	13.0	15.6	29.5	45.8	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	8.2	9.4	16.5	24.3	..
Government finance[b]					
(% of GDP)					
Current budget balance	-0.7	0.6	0.6	-4.6	..
Overall surplus/deficit	-7.0	-6.7	-4.8	-10.4	..



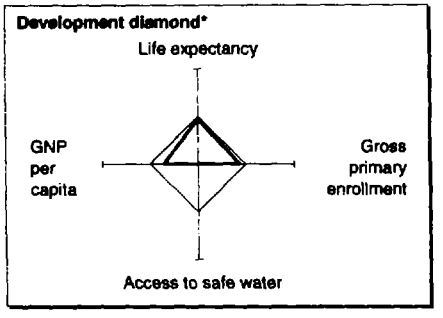
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Kenya

POVERTY and SOCIAL

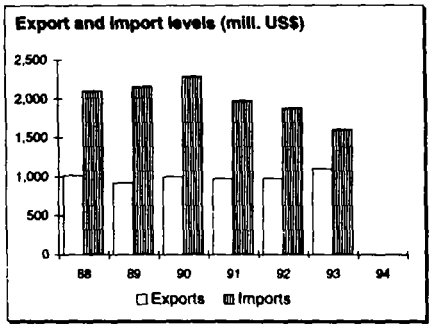
	1985-90	1990-94
(annual growth rates)		
Population	3.1	2.7
Labor force	3.5	3.6

	most recent estimate
Poverty level: headcount index *(% of population)*	37.0
Life expectancy at birth	58.5
Infant mortality *(per 1,000 live births)*	61.0
Child malnutrition *(% of children under 5)*	22.3
Access to safe water *(% of population)*	..
Energy consumption per capita *(kg oil equivalent)*	99.2
Illiteracy *(% of population age 15+)*	31.0
Gross primary enrollment *(% of school-age population)*	95.0



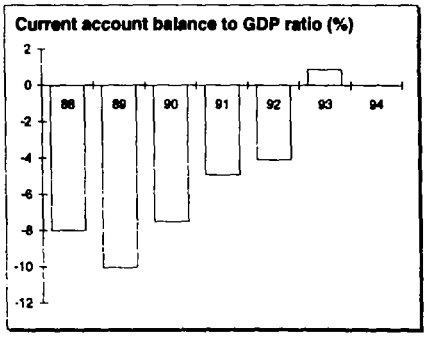
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	940	1,001	973	1,096	..
Fuel	118	58	70	67	..
Coffee	281	192	129	191	..
Manufactures	117	140	136	150	..
Total imports (cif)	1,486	2,288	1,880	1,605	..
Food	112	119	158	152	..
Fuel and energy	461	462	396	439	..
Capital goods	340	669	414	312	..
Export price index *(1987=100)*	90	111	104	..	..
Import price index *(1987=100)*	81	111	86	..	..
Terms of trade *(1987=100)*	111	99	121	..	..
Openness of economy *(trade/GDP,%)*	52	58	54	79	..



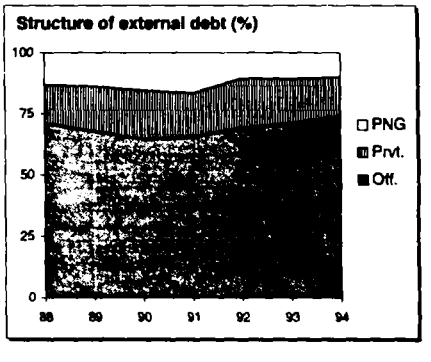
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	1,552	2,217	2,151	2,326	..
Imports of goods and nfs	1,849	2,659	2,283	2,170	..
Resource balance	-297	-442	-132	156	..
Net factor income	-213	-367	-263	-243	..
Net current transfers	81	167	68	136	..
Current account balance					
Before official transfers	-429	-642	-327	49	..
After official transfers	-319	-437	-102	143	..
Long-term capital inflow	119	393	259	166	..
Total other items (net)	168	-68	-141	137	..
Changes in net reserves	33	113	-16	-446	..
Memo:					
Reserves excluding gold *(mill. US$)*	391	205	53	406	558
Reserves including gold *(mill. US$)*	417	236	80	437	588
Conversion rate *(local/US$)*	16.4	22.9	32.2	58.0	..



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	202.5	257.0	257.6	244.9	..
IMF credit/exports	32.9	21.6	18.2	15.5	..
Short-term debt/exports	29.7	41.0	34.4	38.9	..
Total debt service/exports	39.2	36.4	33.1	27.9	..
GDP ratios					
Long-term debt/GDP	52.3	67.1	70.0	103.3	..
IMF credit/GDP	8.5	5.6	5.0	6.6	..
Short-term debt/GDP	7.7	10.7	9.3	16.4	..
Long-term debt ratios					
Private nonguaranteed/long-term	16.2	15.4	10.4	10.5	9.9
Public and publicly guaranteed					
Private creditors/long-term	13.2	20.3	20.6	18.6	16.2
Official creditors/long-term	70.6	64.4	69.0	70.9	73.9



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

a. Average Nairobi lower income price indices (1987 to 1993)

b. Fiscal year (July to June)

Lesotho

Lesotho is at a crucial juncture of its political and economic development. With the return to democracy in 1993 after 23 years of authoritarian rule, and rapid change in South Africa, Lesotho has an opportunity to re-evaluate the perspectives of the past and to reorient its development toward greater economic integration with South Africa and the region. In terms of macroeconomic management, Lesotho has been an above-average performer in Sub-Saharan Africa and has successfully corrected the fiscal imbalances of the 1980s. It can look forward to substantial financial flows from the sale of water resources to South Africa under the Lesotho Highlands Water Project and has made important progress in delivering social services to its population. However, these advances have been marred in the past few years by declining government performance in implementing structural reforms. On the political front, the new democratic government has had problems with insubordination in the ranks of the defense force over pay and political disaffection, and has had to request international mediation to deal with two short-lived mutinies and a palace coup.

Lesotho's emergence as a labor reserve for South Africa closely followed the general pattern of the creation of native reserves in the Southern African region. In the mid-19th century European settler regimes effectively lowered the potential profits in a free African farming sector to force peasants into farm or industrial labor. In the case of the Basotho, measures included seizing most of its arable land, confining independent Basotho farming to a remote and mountainous area that was to become the independent state of Lesotho, and adopting protectionist measures against agricultural exports from Lesotho.

During the 20th century, Lesotho's dependence on the South African economy cast it in the role of exporter of labor and exposed it to the long-term consequences of South Africa's economic policies. The failure of the inward-looking and capital-intensive South African economy to use its plentiful factor — labor — efficiently has meant a general decline in employment opportunities, with negative consequences for Lesotho, given its historic dependence on labor migration. Second, the high degree of protection granted parastatal and private white-owned industry against international and domestic competition stifled the development of a diversified productive base in Lesotho oriented toward supplying the South African markets. Third, the inefficiencies associated with the overly capital-intensive and uncompetitive production of basic consumer goods and services in South Africa have hurt Basotho consumers in general and the poor in particular. Fourth, the labor recruitment policies followed by the South African mines have had devastating effects on family structure in the recruitment areas, including Lesotho.

Lesotho responded to these policies by adopting an import-substitution strategy for basic consumer goods and services after independence from Britain in 1966. A key element of that strategy was the creation of parastatals and public companies in those areas where the government's perception was that a domestic private sector was virtually nonexistent, or that emerging private entrepreneurs would not be able to compete against large-scale South African enterprises. Hence, public investment in the parastatal sector, strongly supported by donors, dominated economic activity through much of the 1970s and 1980s. However, by the mid-1980s it became clear that parastatal and public company investments had been unable to generate sustained economic growth or increase the labor-absorptive capacity of the economy. Parastatal losses became a drain on the government's resources, while crowding out private investment and raising consumer prices for the goods and services produced. By fiscal 1988, the deficit reached 20 percent of GDP, or 10 percent of GNP —Lesotho's GNP is about twice the size of its GDP due to the migrant workers' remittances, which are included in the GNP estimate, but excluded from GDP. An imprudent rise in military expenditures caused a further deterioration of the fiscal balance. In 1988 Lesotho adopted a structural adjustment program supported by the IMF.

Recent Economic Performance

The adjustment program was triggered by the fiscal imbalance, but was also designed to find ways of reducing Lesotho's macroeconomic vulnerability to exogenous shocks and to set up a macroeconomic and policy

framework that would enable private sector development and the productive use of Lesotho's substantial revenues from the Highlands Water Project. While the external balance was threatened by a structural decline of migrant workers' remittances and Southern Africa Customs Union revenues, the scope for corrective exchange rate and monetary policies was limited, given Lesotho's membership in the customs and monetary unions. The only significant short-term means for correcting the imbalance required reducing public expenditures and increasing revenues, and Lesotho has taken this route through successive structural adjustment programs.

The stabilization measures proved extremely successful. The fiscal deficit, after grants, of 10.3 percent of GNP in fiscal 1988 was reversed into a surplus of 3.6 percent of GNP by fiscal 1994. The rate of inflation, currently estimated at less than 9.5 percent, is decelerating, mirroring the trend in South Africa. Finally, the external current account deficit was reduced from 7 percent of GNP to 2.0 percent, and foreign exchange reserves were built up from less than 6 weeks to over 16 weeks of imports. Overall balance of payments went from a deficit of SDR 3.9 million in fiscal 1988 to a surplus of SDR 101 million in fiscal 1994.

Other positive developments included impressive improvement of manufacturing export performance, caused by the inflows of foreign private investment of East Asian or South African origin attracted by the improvement in the macroeconomic framework, intensive investment promotion efforts in the early 1990s, Lesotho's attractive labor wage rates and productivity, and preferential access to export markets through the Lomé Convention and the General System of Preferences applicable to low-income countries. In 1992 total exports increased by 67 percent in nominal terms, caused by a sharp rise in textiles, garments, footwear, and light manufactures, which now account for over 80 percent of total exports and provide employment for about 11,000 people. This strengthened a trend established in the 1980s, when exports — mainly driven by textiles and footwear — increased 30 percent a year, although from a very small base. In 1993 exports slowed because of quotas imposed on Lesotho's garment industry. In 1994 despite an increase in export volume, the total value of exports in dollar terms showed no significant increase from fiscal 1993's $112 million because more than 40 percent of Lesotho's exports were to South Africa, whose rand depreciated by 12.7 percent in fiscal 1994.

However, during the period of stabilization, economic growth was uneven and management of structural reforms slipped considerably, following a general trend of declining civil service performance. Severe drought conditions also contributed to a fall in real GDP growth from 12.6 percent in fiscal 1989 to 2.4 percent in fiscal 1993. Real GNP growth fared even worse, falling from 8.8 percent in fiscal 1989 to 0.3 in fiscal 1993. Real GDP and GNP growth recovered in fiscal 1994 to 7.7 and 8.8 percent, respectively.

The reforms envisaged in the adjustment program were intended to promote growth and expand employment opportunities while continuing to strengthen the fiscal and balance of payments positions. Reforms included privatization and parastatal reform, and improving land management and tenure systems to raise agricultural productivity. Supporting structural measures sought to increase outlays and improve efficiency in the use of funds for social services, encourage capacity building in the civil service — with special emphasis on financial management and personnel training — and promote sound environmental management practices. Implementation of these structural reforms was slow and deteriorated during the final two years of the military regime. Nonetheless, some progress in structural reform was witnessed over 1988-94. The environment for private investment improved through changes in the tax law and streamlining of licensing and work permit procedures, and the government formulated a phased medium-term comprehensive parastatal reform program. Progress, albeit slow, was made in education and health programs.

Poverty and Social Indicators

Lesotho has made substantial progress in the last decade in human resource development. Mortality rates are falling and some 75 percent of all six- to twelve-year-olds are enrolled in primary school. There is a solid core of social infrastructure, exemplified by a wide network of schools and clinics. However, the impressive advances made by Lesotho in human resource development are threatened by management and manpower deficiencies, population pressure, and the future cost of epidemic diseases. In education, quality is declining when Lesotho is in greatest need of an expansion of skills, and needs to be responsive to the demands of economic diversification and emerging employment opportunities in the region. Notable advances in the expansion and quality of primary health care services are constrained by bottlenecks in planning, finance, and training. Lesotho's already high dependency ratio is in danger of worsening even more if fertility does not fall rapidly and measures to prevent sexually transmitted diseases are not expanded.

Despite Lesotho's achievements in providing social services, poverty continues to be serious and is characterized by the high proportion of people classified as poor — 50 percent — and very poor — 25 percent — in 1993. The incidence of poverty is most severe in the

rural areas: according to one estimate it is twice as high as in Maseru, the capital. The continued high rates of poverty find their root in still insignificant progress made in developing an indigenous private sector in key sectors such as handicrafts, textiles, and agricultural processing and marketing. Furthermore, an import ban on wheat and maize flour to protect domestic processing and production of basic food grains may also hurt the poor. The food price-raising effect functions as a regressive tax, while inhibiting diversification of agriculture.

Structural reform has been hampered by entrenched interests in current economic structures, which have inhibited genuine empowerment of local communities and indigenous entrepreneurs. The pace of agricultural and land reform has been disappointing, as little was done following amendment to the Land Act and the gazetting of the grazing fees, which were suspended by the new government in 1993. Protection of parastatal industries against South African firms has distorted domestic competition in favor of capital-intensive parastatals at the expense of more employment-intensive, small and medium-scale indigenous businesses. The success of Lesotho's small but thriving industrial sector based on foreign direct investment, of which around two-thirds is of South African and one-third of East Asian origin, is double edged. Employment has increased substantially as the sector has sustained 20 percent real annual growth over the past 20 years, but substantial resentment leading to civil unrest was fueled by a perceived dominance of foreign investors at the expense of local entrepreneurs. The sustainability of reforms is most threatened, however, by lack of progress in civil service reform, which stalled after a promising start with Swedish, British, UNDP, and World Bank assistance. The loss of momentum coincided with a growing lack of political direction in government and gradual politicization of the civil service.

Challenges to Lesotho's economy include the transformation of the South African economy, changes in the international trade regime, and the regular occurrence of drought. With a 1993 GNP per capita estimated at $650, Lesotho is encircled by South Africa with a GNP per capita of $2,980. Over 80 percent of Lesotho's trade takes place with South Africa. Customs Union revenues, collected as duties on imports by the South African government, constitute around 50 percent of Lesotho's government revenues. In any given year about 140,000 men, 40 percent of Lesotho's male labor force, are employed in the Republic of South Africa. Migrant earnings constitute about 50 percent of Lesotho's GNP and allow imports worth more than 1.5 times the value of domestic production. Over 80 percent of adult men living in Lesotho have been migrant workers in South Africa at some point in their lives. Around 80 percent of Lesotho's households live in the rural areas, and even in the rural areas remittances make up more than 50 percent of average household incomes.

A continued peaceful transition in South Africa should lead to an economic resurgence. A dynamic South Africa will stimulate the development of Lesotho's domestic productive base, since it is likely that the new South African economy will liberalize its markets and generate many opportunities for black, small-scale entrepreneurial activity that can take advantage of Lesotho's labor cost competitiveness.

Developments in international trade, particularly the impact of the new GATT, will also challenge Lesotho. South Africa may be able to negotiate special trade status with the United States and the European Union, which, in combination with the lifting of international sanctions on South Africa, may prompt some industries to relocate within South Africa's borders. Moreover, trade restrictions on Lesotho's garment industry may continue to stifle export growth. For instance, in fiscal 1994 Lesotho's textile exports to have slowed considerably because of recent export quotas imposed on Lesotho's garment exports by the United States because of disagreement over origin.

Severe drought hit Lesotho in 1992-93 and resulted in high food expenditures and imports. Another major drought is unfolding in the 1994/95 season. Improved water resource management is an important element of a strategy aimed at drought-proofing the economy. Additionally, carefully managed financial reserves that can be quickly mobilized to protect vulnerable groups from the effects of such shocks will go a long way to minimize the risks of natural disasters. Continued liberalization of South African agricultural markets will improve food security in the region through lower consumer prices and increased reliance on international grain trade, in particular during periods of drought.

Recent Political Developments

In March 1993 the Basotho Congress Party won all 65 seats in the lower house of Parliament, making Lesotho effectively a one-party democracy. The fragility of the democratic process — accentuated by mutinies in the ranks of the defense force in 1993 and 1994, a thwarted palace coup in August/September 1994, and the inexperience of the new government and parliament in policy-making and implementation, resulted in an extended breathing space that allowed the government to focus on issues of strategy and capacity. The new government came to power with a strong political and social vision deeply rooted in the principles of participatory democracy. While it subscribes to some of the basic principles of the structural reform agenda introduced by the previous authoritarian regime, it is conscious of the need

for a fundamental change in strategy, given the fast-moving political and economic context that has just been described.

While the government's policy framework is still emerging, the Congress Party's election program points to a number of strategic themes underlying the government's development objectives and policies. Democratic decentralization and civil service reform are high on the government's agenda. The Congress Party's strong democratic and populist political orientation holds considerable promise in the areas of local participation in the development process and poverty alleviation. Democratic decentralization is to be achieved through the establishment of democratic structures at the district and village council levels. It is envisaged that chiefs will continue to play a role, provided they act through democratically elected village councils and are held accountable for their activities. Civil service reform is seen as necessary for improving the working conditions, career outlook, and remuneration packages of public employees.

The party envisions a mixed economy characterized by government participation in essential services and minimum intervention in priority sectors of the economy. There is a strong commitment to maintain macroeconomic stability, create employment, encourage private-sector development, offer strong support to Basotho entrepreneurs in all sectors of the economy, and continue privatizing government activities that can be done more efficiently by the private sector.

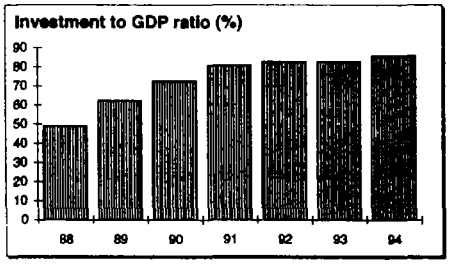
Lesotho

Population mid-1993 *(millions)* **1.9**
GNP per capita 1993 *(US$)* **650**

Income group: **Low**
Indebtedness level: **Less Indebted**

KEY RATIOS

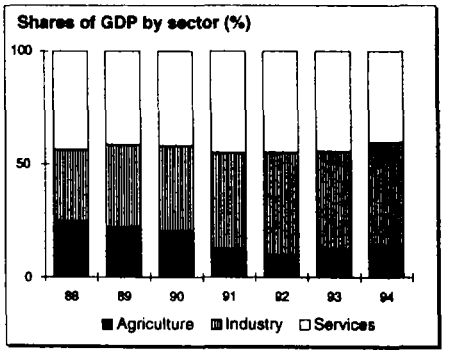
	1985	1990	1992	1993	1994
Gross domestic investment/GDP	49.4	72.7	82.9	82.9	85.8
Exports of goods and nfs/GDP	12.7	9.5	14.1	15.8	15.3
Gross domestic savings/GDP	-77.5	-46.1	-30.2	-23.1	-13.7
Gross national savings/GDP	40.8	27.2	32.9	86.9	..
Current account balance/GDP	2.7	-47.5	-45.0	-23.2	..
Interest payments/GDP	1.7	1.3	1.9	1.5	1.6
Total debt/GDP	70.9	65.0	63.7	67.5	68.8
Total debt/exports	48.4	70.2	77.1	88.5	..



GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	21.5	20.0	9.3	12.0	13.7
Industry	29.6	38.2	45.9	43.7	45.8
Manufacturing	11.1	13.2	17.0	17.1	16.6
Services	48.9	41.9	44.7	44.3	40.5

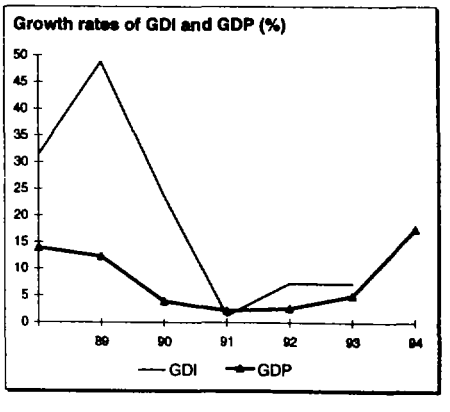
	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Agriculture	8.1	-2.3	-23.3	18.3	46.0
Industry	15.5	11.4	10.8	5.8	22.0
Manufacturing	13.6	10.4	15.1	5.0	12.9
Services	5.1	5.0	3.5	5.1	6.7
GDP	8.2	6.1	2.6	5.0	17.5



GDP: EXPENDITURE

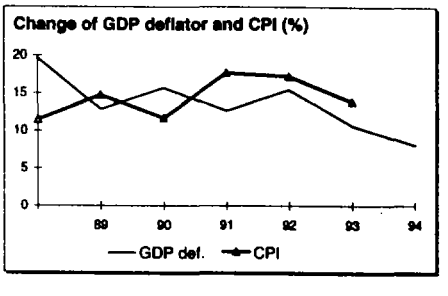
	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	144.5	123.0	100.4	93.0	85.6
General government consumption	33.0	23.1	29.8	30.2	28.1
Gross domestic investment	49.4	72.7	82.9	82.9	85.8
Exports of goods and nfs	12.7	9.5	14.1	15.8	15.3
Imports of goods and nfs	139.7	128.3	127.3	121.8	114.8

	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Private consumption	0.5	..	-7.0	..	..
General government consumption	1.6	..	4.8	..	..
Gross domestic investment	18.6	*5.5*	7.3	7.3	..
Exports of goods and nfs	14.6	*9.0*	3.0	11.6	..
Imports of goods and nfs	5.0	*3.1*	-1.7	5.2	..
Gross national product	3.8	2.7	-1.4	6.2	7.0
Gross national income	3.0	*1.9*	0.2	7.0	..



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	13.3	11.6	17.2	13.8	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	16.9	15.7	15.4	10.6	8.1
Government finance					
(% of GDP)					
Current budget balance	..	11.0	13.9	16.5	..
Overall surplus/deficit	..	..	..	..	..



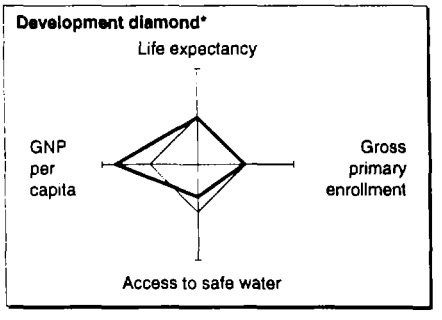
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Lesotho

POVERTY and SOCIAL

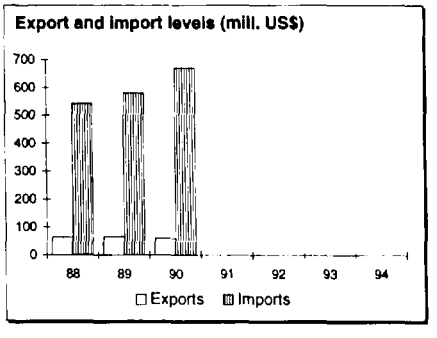
	1985-90	1990-94
(annual growth rates)		
Population	2.7	2.7
Labor force	2.0	2.1

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	60.9
Infant mortality *(per 1,000 live births)*	77.0
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	46.4
Energy consumption per capita *(kg oil equivalent)*	..
Illiteracy *(% of population age 15+)*	..
Gross primary enrollment *(% of school-age population)*	106.0



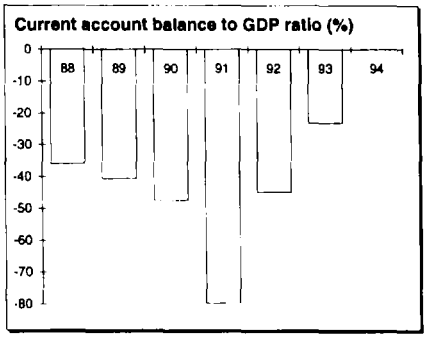
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	22	59	..	..	..
n.a.	..	..	..	..	..
n.a.	..	..	..	..	..
Manufactures	2	..	..	..	..
Total imports (cif)	335	670	..	..	..
Food	66	..	..	..	..
Fuel and energy	32	..	..	..	..
Capital goods	56	..	..	..	..
Export price index *(1987=100)*	69	93	..	..	..
Import price index *(1987=100)*	72	137	..	..	..
Terms of trade *(1987=100)*	95	68	..	..	..
Openness of economy *(trade/GDP,%)*	152	138	141	138	130



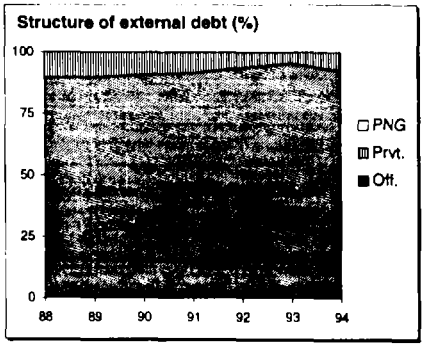
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	39	106	127	114	..
Imports of goods and nfs	343	825	929	919	..
Resource balance	-304	-719	-802	-805	..
Net factor income	249	427	463	625	..
Net current transfers	62	5	3	4	..
Current account balance					
Before official transfers	7	-287	-337	-176	..
After official transfers	7	-131	-70	-135	..
Long-term capital inflow	16	129	179	54	..
Total other items (net)	-2	27	-17	81	..
Changes in net reserves	-21	-25	-92	0	..
Memo:					
Reserves excluding gold *(mill. US$)*	44	72	157	253	..
Reserves including gold *(mill. US$)*	44	72	157	253	..
Conversion rate *(local/US$)*	2.2	2.6	2.9	3.3	3.5



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	46.2	67.0	72.3	81.5	..
IMF credit/exports	1.1	2.7	4.0	5.9	..
Short-term debt/exports	1.1	0.5	0.8	1.0	..
Total debt service/exports	5.2	4.1	5.5	5.6	..
GDP ratios					
Long-term debt/GDP	67.7	62.0	59.7	62.2	64.5
IMF credit/GDP	1.6	2.5	3.3	4.5	3.8
Short-term debt/GDP	1.6	0.5	0.7	0.8	0.5
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	4.7	9.3	6.4	4.7	7.5
Official creditors/long-term	95.3	90.7	93.6	95.4	92.5



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Madagascar

Madagascar is a striking example of a country with significant but unfulfilled growth potential. It is the world's fourth-largest island, with a rugged topography, a wide range of soil types and climates, a rich mineral endowment, unique flora and fauna, and many beaches, and enjoys abundant low-wage and trainable labor. And yet, with a population of over 13 million growing at 2.8 percent a year and a 1993 per capita income estimated at $220, it is one of the world's least-developed countries. Poverty is widespread. The economy is predominantly based on agriculture, which accounts for one-third of GDP and is the main source of income for 80 percent of the population. The agricultural sector is dominated by small-scale farms producing export and food crops. Agricultural products provide about 60 percent of export earnings. Major exports are vanilla, coffee, and shellfish. Rice is the country's main staple. The industrial sector (about 13 percent of GDP) is showing positive results from efforts to move away from capital-intensive and import-substituting activities toward labor-intensive and export-oriented production. Madagascar has significant long-term economic potential, given its industrious labor force and an abundant and wide variety of natural resources.

Poverty and Social Indicators

Madagascar's social conditions are below Sub-Saharan standards: life expectancy is about 50; child mortality claims 15 percent of live births before age five; malaria is a major health problem, and tuberculosis and other communicable diseases are increasing; chronic malnutrition of up to 40 percent exists in certain areas; and illiteracy is increasing. Food security is a particularly serious problem, especially in urban areas, and has worsened over recent years largely due to economic decline. The public health and education systems are poorly managed, underfunded, and inefficient. Little has been done to control population growth.

Madagascar is one of the ecologically richest countries in the world; unfortunately it is also one where the heritage of biological diversity is more at risk as the country finds itself in a cycle of environmental degradation that increasingly threatens sustainable development. The forest cover has been reduced by 50 percent in the last 30 years, and in some areas erosion is decreasing agricultural productivity and threatening infrastructure. Low technology use, slash-and-burn cultivation, and wide-spread poverty and high population growth have contributed to environmental degradation. The authorities recognized the importance of this issue, and Madagascar was the first African country to prepare a national environmental action plan.

From independence in 1960 until 1970, Madagascar enjoyed modest growth. The trend faltered in the mid-1970s as the country underwent a socialist revolution that resulted in authoritarian rule and dirigiste economic policies. The government followed a policy of nationalization and economic controls that effectively discouraged private-sector development. It made industrialization through import substitution a central objective, with agriculture relegated to a supporting role. By the late 1970s this strategy culminated in an ambitious public investment program composed of large, capital-intensive and economically nonviable projects, financed to a large extent by external borrowing on commercial terms. The policy, together with declining terms of trade and stagnant domestic revenues, led to widening external and domestic disequilibria, high inflation, and a contraction in real GDP of 11 percent between 1980 and 1982. The government was soon obliged to institute a stabilization program with support from the IMF.

The financial situation stabilized over the 1983-87 period, during which there was once again modest growth. A series of measures to liberalize domestic trade and deregulate prices, in conjunction with a sizable devaluation of the currency and a liberal import system, boosted output. Between 1988 and 1990 Madagascar saw a modest increase in per capita GDP. This period also saw an increase in private domestic and foreign investment, particularly in the export industries.

Recent Political Developments

Economic progress was accompanied by political liberalization, which began in 1989 with the lifting of press

censorship and included unrestricted multiparty activity, as well as steps to adapt the country's socialist constitution to the new market orientation. However, demonstrations and strikes erupted in the summer of 1991, paralyzing public administration and severely disrupting economic activity. Output fell, inflationary pressures increased and the external position weakened. The situation of the poor worsened. Despite the unfavorable political and economic environment, private sector investment continued, particularly in labor-intensive export activities under the special regime of the export processing zone, which was introduced in 1990 and was very successful in creating jobs and expanding nontraditional exports during 1990-93. This private sector response vividly demonstrates Madagascar's underlying potential and reinforced the position of reform-minded groups in the country that support new adjustment measures and private-sector-led growth.

The political crisis led to a transitional power-sharing arrangement, and a coalition government was put in place in early 1992. A new constitution was adopted in August 1992, and presidential elections were held in February 1993, followed by parliamentary elections that June, and a new government was formed in August 1993. The shift to pluralistic democracy was remarkably peaceful.

The Adjustment Program

In 1985, when fiscal deficits and inflation had been reduced to manageable levels, the government turned its attention to structural adjustment efforts with the support of the World Bank and other donors. The adjustment process first focused on correcting the large currency overvaluation, reducing price controls, streamlining and reforming the inefficient parastatal sector and state-owned banking system, and liberalizing domestic and external trade. In 1987 the government embarked on a broader reform agenda spelled out in a series of policy framework papers supported by the IMF.

The policy reforms undertaken since the mid-1980s have drastically altered Madagascar's economic landscape, bringing an unprecedented degree of freedom to the markets and restoring economic growth after a prolonged period of uninterrupted decline. The adjustment experience also contributed to an important shift in mindsets. The export processing zone demonstrates the potential for export-led, private-sector-based growth.

Recent Economic Developments

Political transition to multiparty democracy and disruption of the adjustment process significantly affected Madagascar's economic and financial performance over 1991-94: real per capita income declined by 10 percent, the fiscal situation deteriorated, the competitiveness of the economy declined, and poverty increased.

The economic price exacted by the political transition was particularly costly in 1991 when real output declined 6.8 percent, private per capita consumption decreased 3.6 percent, and inflation rose 14 percent. The 20 percent decrease in imports in dollar terms was not sufficient to reverse the worsening external position, forcing the accumulation of $180 million in new arrears by end-1991 and the suspension of the open general licensing system of foreign exchange allocation in October 1991. Government revenue declined to 9.3 percent of GDP, compared to 13.3 percent in 1990. The overall fiscal deficit climbed to 10.2 percent of GDP, compared to 7.8 percent in 1990).

Over the 1992-94 period, economic growth averaged 1.6 percent, underscoring the need for widespread reform. Domestic investment and savings remained low, at about 12 percent and under 3 percent of GDP, respectively. In the external sector, some improvement was noted as the current account deficit (without grants) relative to GDP fell to about 9 percent on average (compared to 10 percent in 1991). Government revenue stagnated, averaging 9.9 percent of GDP. The overall deficit of the central government continued to remain high, averaging 8.5 percent of GDP. During the period, inflation was almost 18 percent. The debt overhang continued to be a serious constraint: debt outstanding remains high at 140 percent of GDP by end-1994, and the scheduled debt service ratio represented 60 percent of exports, and Madagascar was in arrears to most of its creditors. Arrears amounted to about $1.6 billion at the end of 1994.

Madagascar's vulnerability to external factors was apparent in early 1994 when two cyclones struck the island, wreaking great damage to the main transport corridor linking the port of Toamasina to the central highlands, where the capital is located. Roads, bridges, and railway lines were disrupted not only because of aging infrastructure but because of runoff made worse by environmental degradation.

In April 1994 the government committed itself to resume the economic reform process and took initial steps. A floating exchange rate system put in place in May resulted in a nominal devaluation of about 100 percent against the French franc; import restrictions were lifted; and a revised budget law was presented to parliament, including a new value-added tax. The momentum of reform halted, as the government was unable to reach agreement on a program with the World Bank and the IMF. Early in 1995 the government signaled its desire to renew dialogue with the Bretton Woods institutions, and agreement was reached with the IMF on the government's program, with the primary objective of

sharply moderating inflation. Program measures included sharp price increases for energy products, consistent with the termination of price subsidies and increases in excise taxes. The government also decided to revise its 1995 budget.

Medium-Term Prospects

Despite the setbacks to adjustment during the political transition, private investors have maintained their confidence in Madagascar's future. Progress depends, however, on the pace of economic reforms. The complex political landscape in the country, characterized by infighting and jockeying for control at various levels throughout government, may still further delay decisionmaking and the process of recovery.

The government has committed itself, in principle, to a program of economic revitalization designed to unleash the Madagascar's substantial potential and put the country on a sustainable growth path. Its priorities are to stabilize the economy by restoring macroeconomic management, with the principal objectives of increasing public savings, strengthening monetary management, and containing inflation, and fostering private-sector development by improving the business environment and providing needed infrastructure.

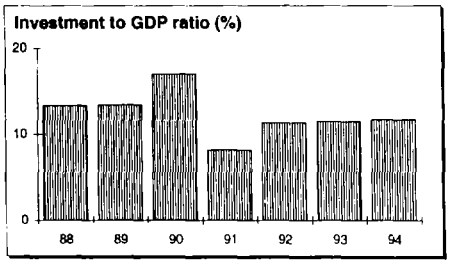
Madagascar

Population mid-1993 *(millions)* **13.9**
GNP per capita 1993 *(US$)* **220**

Income group: **Low**
Indebtedness level: **Severely indebted**

KEY RATIOS

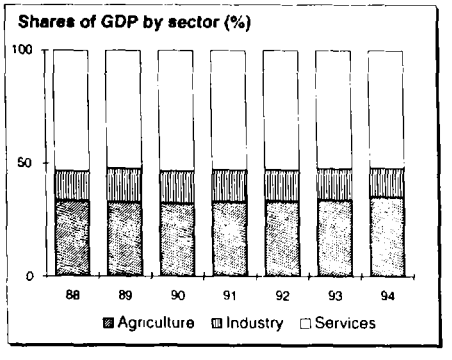
	1985	1990	1992	1993	1994
Gross domestic investment/GDP	8.5	17.0	11.3	11.4	11.7
Exports of goods and nfs/GDP	11.6	16.6	16.7	15.3	22.2
Gross domestic savings/GDP	1.3	6.3	3.5	2.3	1.5
Gross national savings/GDP	-1.9	3.6	2.6	2.3	..
Current account balance/GDP	-8.5	-13.4	-8.7	-9.7	-16.6
Interest payments/GDP	2.1	3.7	1.1	0.7	1.1
Total debt/GDP	96.1	137.5	149.8	136.3	149.4
Total debt/exports	765.2	796.2	879.1	948.9	529.9



GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	35.1	32.3	33.3	33.9	35.3
Industry	13.3	14.3	13.8	13.8	12.7
Manufacturing	..	..	..	..	..
Services	51.5	53.4	52.9	52.2	52.0

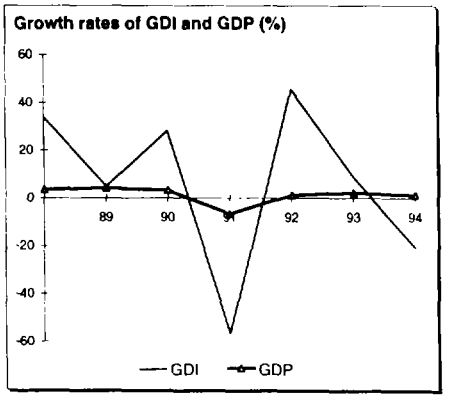
	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Agriculture	3.1	1.5	1.7	3.2	-0.5
Industry	2.3	-0.7	-1.0	3.2	-6.1
Manufacturing	..	..	..	..	..
Services	2.6	0.3	1.1	2.2	4.0
GDP	2.8	-0.2	1.1	2.1	1.1



GDP: EXPENDITURE

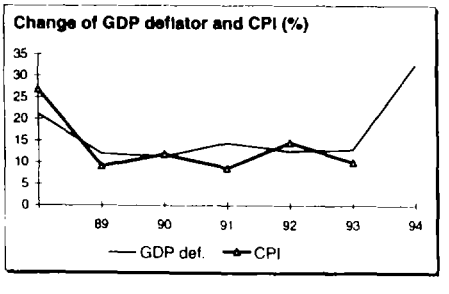
	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	89.0	87.5	89.1	89.9	91.0
General government consumption	9.8	6.2	7.5	7.9	7.5
Gross domestic investment	8.5	17.0	11.3	11.4	11.7
Exports of goods and nfs	11.6	16.6	16.7	15.3	22.2
Imports of goods and nfs	18.9	27.3	24.5	24.5	32.3

	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Private consumption	-0.3	0.1	-3.0	2.8	2.5
General government consumption	1.3	-2.2	0.5	-3.6	0.7
Gross domestic investment	17.8	-7.4	45.4	8.6	-21.0
Exports of goods and nfs	3.7	4.4	2.0	4.8	7.1
Imports of goods and nfs	-1.6	-0.4	0.6	8.7	0.4
Gross national product	2.5	0.2	3.0	2.8	0.7
Gross national income	1.5	-0.6	2.0	1.8	0.8



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	10.6	11.8	14.5	10.0	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	10.4	11.4	12.6	13.0	32.4
Government finance					
(% of GDP)					
Current budget balance	-0.4	0.0	-4.3	-1.6	-1.7
Overall surplus/deficit	-7.5	-7.8	-12.4	-10.1	-5.8

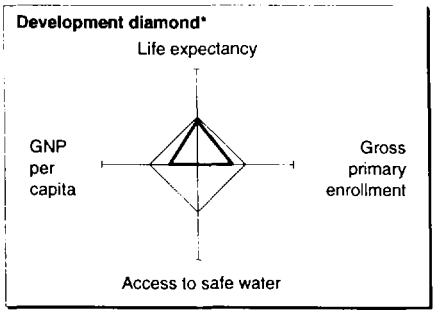


Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

POVERTY and SOCIAL

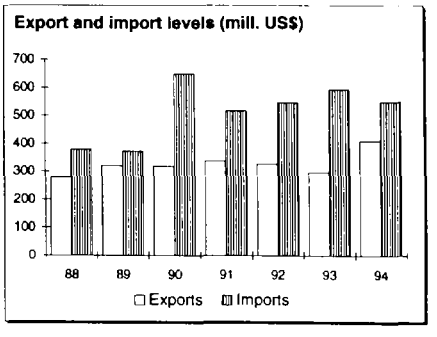
	1985-90	1990-94
(annual growth rates)		
Population	3.4	3.2
Labor force	2.1	2.3

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	57.0
Infant mortality *(per 1,000 live births)*	93.0
Child malnutrition *(% of children under 5)*	39.0
Access to safe water *(% of population)*	..
Energy consumption per capita *(kg oil equivalent)*	34.2
Illiteracy *(% of population age 15+)*	19.8
Gross primary enrollment *(% of school-age population)*	79.0



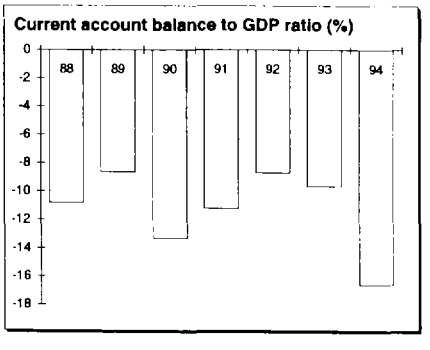
TRADE

(millions US$)	1985	1990	1992	1993	1994
Total exports (fob)	291	319	328	297	410
Coffee	103	39	32	40	143
Other food	35	20	9	6	51
Manufactures	..	..	..	7	12
Total imports (cif)	466	649	547	594	549
Food	50	49	58	51	117
Fuel and energy	85	113	72	84	60
Capital goods	98	186	129	139	129
Export price index *(1987=100)*	92	112	117	112	..
Import price index *(1987=100)*	133	136	108	118	..
Terms of trade *(1987=100)*	69	82	108	95	..
Openness of economy *(trade/GDP,%)*	31	44	41	40	55



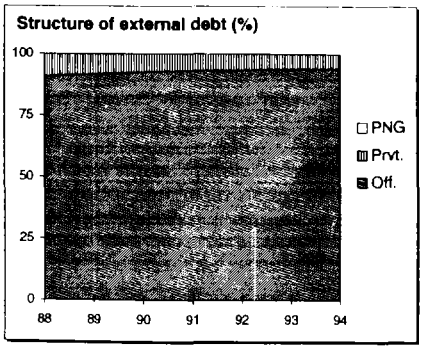
BALANCE of PAYMENTS

(millions US$)	1985	1990	1992	1993	1994
Exports of goods and nfs	350	513	499	481	601
Imports of goods and nfs	503	842	733	810	880
Resource balance	-153	-329	-234	-328	-279
Net factor income	-129	-160	-137	-130	-240
Net current transfers	39	77	109	132	51
Current account balance					
Before official transfers	-243	-412	-262	-326	-468
After official transfers	-243	-251	-136	-167	-404
Long-term capital inflow	66	17	-79	-78	-114
Total other items (net)	154	97	231	262	518
Changes in net reserves	24	137	-17	-16	0
Memo:					
Reserves excluding gold *(mill. US$)*	48	92	..	..	..
Reserves including gold *(mill. US$)*	48	92	..	..	..
Conversion rate *(local/US$)*	662.5	1,494.1	1,864.0	1,913.8	3,064.8



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	676.5	711.0	764.3	809.7	510.8
IMF credit/exports	51.3	27.0	20.7	19.0	10.5
Short-term debt/exports	37.4	58.2	94.0	120.2	8.7
Total debt service/exports	48.6	49.1	19.1	14.3	12.0
GDP ratios					
Long-term debt/GDP	85.0	122.8	130.3	116.3	144.0
IMF credit/GDP	6.4	4.7	3.5	2.7	2.9
Short-term debt/GDP	4.7	10.0	16.0	17.3	2.4
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	18.4	7.4	6.7	6.1	5.8
Official creditors/long-term	81.6	92.6	93.3	93.9	94.2



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Malawi

Over the past three years Malawi has completed a remarkably peaceful political transition from some thirty years under a single-party system to a multiparty democracy. This achievement is all the more impressive given the economic challenges of the early 1990s, including withdrawal of nonhumanitarian bilateral donor support because of governance issues, severe deterioration in terms of trade, and the worst regional drought on record. The new government has put poverty alleviation squarely in the center of its development agenda and is committed to a major structural adjustment effort over an extended period to reestablish private sector confidence in the economy, facilitate diversification of the economic base and ownership structure, and achieve a sustainable supply response.

During the 1960s and 1970s Malawi's development strategy emphasized infrastructure and estate agriculture as prime vehicles for increased production and growth. Malawi's economy was open, and world market prices for its major exports (tobacco, tea, coffee, and cotton) were relatively high, real GDP more than doubled, and real per capita income grew 3 percent a year. The period of strong growth ended in the early 1980s with the onset of economic problems and external shocks, including deterioration of the terms of trade, oil crises, disruption of external transport routes through Mozambique, and drought. These shocks led to a decline in per capita income and policy setbacks that culminated in 1987 by reversing the openness of the economy and discouraging private sector investment and output.

Malawi embarked on a series of structural adjustment programs in response to these shocks that aimed at correcting the underlying economic fundamentals and removing structural obstacles to growth. Although the early adjustment efforts resulted in several short-lived periods of economic recovery during the 1980s, the government largely failed to effectively address barriers to growth that resulted from the bias against smallholder farmer access to cash crops, discrimination against ethnic minorities, expenditure bias against the social sectors, and an overvalued exchange rate. As a consequence, the country continued to suffer from long-standing distortions and Malawi's social and human resource indicators deteriorated throughout the 1980s.

Malawi took initial steps in 1989 to develop structural policies focused on removing constraints to sustainable growth while addressing the roots of pervasive poverty. The new attempt to reliberalize the economy included lifting restrictions on smallholder access to cash crops, removing constraints on private participation in all sectors of the economy, and moving toward a more liberal external sector policy. Increasing adoption of fertilizer and hybrid seed in the smallholder sector, combined with expanding private sector participation in production and marketing, resulted in per capita GDP growth of 2 percent a year over 1989-91.

Recent Economic Developments

Economic management was challenged by external developments, including the unprecedented drought throughout southern Africa in 1992, significant deterioration in Malawi's terms of trade, and the bilateral donors' decision at the 1992 consultative group meeting to withhold all new nonhumanitarian aid because of governance issues. Following several years of macroeconomic stability and positive per capita growth, Malawi's economy contracted by more than 7 percent in 1992. The return of normal weather during the 1992/93 crop season helped facilitate recovery in agriculture, allowing overall GDP to grow some 9.3 percent in 1993.

After the June 1993 referendum that endorsed the move to multiparty democracy and subsequent steps taken by the government, donors agreed to resume economic aid and financial support at the December 1993 consultative group meeting. When the new government took office in May 1994 it inherited several daunting and immediate challenges. Fiscal and monetary discipline suffered in the months immediately preceding the May elections, and the situation was aggravated by the second drought within a three-year period. As a consequence, economic and financial stabilization efforts of the early 1990s were not sustained.

Economic performance in 1994 was overshadowed by the drought, which contributed to a serious recession.

Real GDP declined in 1994 compared to a positive growth rate of 9 percent in 1993. Agricultural output declined by 30 percent mainly on account of a 33 percent decline in smallholder agriculture.

The government had difficulties maintaining its budget in fiscal years 1994 and 1995 because of the high cost of the political transition, drought-related costs that were much higher than projected, and a depreciation of the kwacha that was more precipitous than expected. In response to the intensifying fiscal crisis the government adopted a supplementary budget in November 1994 supported by administrative strengthening of tax and customs collection, expenditure monitoring, and a move to a cash budget. However, implementation of both revenue and expenditure control measures was ineffective and massive overspending continued across most ministries. As a consequence, the overall fiscal deficit (after grants and excluding drought) for fiscal 1995 is estimated at 9.7 percent of GDP, more than double the target under the supplementary budget.

Failure to control the fiscal program led to excessive borrowing from the domestic banking system, which more than offset the positive effects from tightening of the monetary stance through aggressive treasury bill sales and increased interest rates. As a result, money supply grew over 50 percent in fiscal 1995, against a targeted growth rate of 33 percent. Excessive monetary growth, combined with a cumulative depreciation of the kwacha against the dollar of approximately 250 percent since the kwacha was floated in February 1994 contributed to a consumer price index increase of 66 percent between December 1993 and December 1994. This unanticipated rise in inflation and the concurrent increase in interest rates have significantly dampened economic activities and virtually stalled new investment activities in Malawi.

The government has recognized that rigorous macroeconomic adjustment and stabilization measures are required to avoid spiraling inflation and further downward pressure on the kwacha, rebuild private-sector confidence in the economy, and preserve the progress made in deregulation and liberalization. Immediate and effective measures, supported by external aid resources, are necessary to reverse the fiscal deterioration before government can successfully embark on sustainable structural reforms and poverty alleviation measures.

The IMF approved a standby in November 1994, and Malawi has since strengthened its program with the view to embarking on a three-year structural adjustment program in mid-1995. In February 1995 the government agreed on a comprehensive set of fiscal, monetary, and exchange measures to prevent a downward economic spiral of high inflation, sharp devaluation of the kwacha, high wage increases, and further depression of economic activities. This policy package is embedded in the draft fiscal 1996 budget and includes revenue measures, expenditure cuts, administrative strengthening of tax and tariff collection, and strict enforcement of the cash budget through commercial banks and weekly monitoring by the treasury. Restoring fiscal discipline combined with continued sales of treasury bills will allow the government to avoid borrowing from the banking system on a net basis this fiscal year. Successful implementation of the program would help reduce the fiscal deficit (after grants and excluding drought) to 4.5 percent of GDP and reduce inflation substantially by the end of calendar 1995. The integrity of the fiscal program depends critically on limiting the civil service wage bill in the short term and implementation of a civil service reform program in the medium term.

Malawi's central problem is poverty, and poverty alleviation is at the core of its development agenda for the 1990s. A Presidential Council on Poverty Alleviation with broad-based participation by NGOs, traditional leaders, religious groups, and political parties has been established to set overall policy direction, mobilize resources, and sensitize the population to poverty issues and programs. The government has integrated poverty reduction into its growth strategy through policies to expand employment opportunities by creating a liberal environment for private entrepreneurship and initiative, enhancing agricultural productivity for poor small farmers, ensuring sustainable use of land resources, and expanding human capital through increased public expenditures for education, health, and other social services.

Medium-Term Prospects

Although Malawi has made progress in deregulating the economy, development of the private sector has remained sluggish, the supply response has not been adequate for sustained growth and balance-of-payments viability, and there has been little diversification out of the traditional exports of tobacco, tea, and sugar. The formal economy remains highly concentrated, and financial markets are thin and shallow. Investment response has been obstructed by official caution and long delays in decisionmaking. The trade tax regime has not been sufficiently oriented toward export markets on which Malawi's future production and employment growth will rely heavily.

Sustainable future growth will depend on increasing domestic savings to finance a larger share of total investment. Prerequisites for increased domestic savings include continued improvements in the public sector financial position, higher private savings generated through reforms in the financial sector and improved profitability of the enterprise sector, and substantial

reduction in transport costs as a result of the reopening of lower-cost transport routes to the sea through Mozambique.

The government's major challenge is to sustain and further the process of economic deregulation and facilitate participation in the economic process of those economic agents who were excluded in the past. A program to fully liberalize smallholder access to cash crops and inputs is under way. Land policy reform and public enterprise privatization are in the initial stages of policy formulation. These programs seek to promote equity; reduce concentration of ownership in manufacturing, distribution, and finance sectors; and enhance domestic competition and economic diversification, thereby raising productivity, external competitiveness, and long-term rates of growth.

In addition to shortfalls in physical capital accumulation, Malawi's long-term growth prospects are seriously constrained by a poor human capital base as manifested in one of the lowest school enrollment ratios in Sub-Saharan Africa. Low education and health levels have limited the ability of small farmers, particularly women, to respond to incentives and have limited the potential for broadening sources of income for the economy. The government has made free primary education the centerpiece of its policy in the development of human capital; four weeks after the May 1994 election, all primary school fees and school uniform requirements were abolished. An improved public expenditure planning process is shifting resources to social sectors to accommodate the additional financing requirements that resulted from the 50 percent increase in primary school enrollment rates in 1994. Increasing attention will be given to improving the efficiency and effectiveness of expenditures in the social sectors through keener focusing of such expenditures on rural areas where most of the poor live; on primary education and cost-efficient secondary education, from which the majority of the poor can benefit, rather than universities; and on low-cost rural health centers rather than expensive urban hospitals.

The government is also committed to strengthening family planning activities, including increased population education in school curricula; expansion of child-spacing services; and supporting the new National Family Welfare Council to address high population growth rates and population density, and organizing and improving the lot of women.

Rapid population growth and low agricultural productivity have led to an increasingly unsustainable demand on land and forest resources, shown in growing soil erosion rates, declining soil fertility, widespread deforestation, increasing scarcity of potable water, and overfishing in Lake Malawi. Government policy calls for strengthening management of natural resources, with emphasis on indigenous forest management, afforestation, fisheries, and soil conservation, and it is preparing an institutional and policy framework as a follow-up to its 1994 environmental action plan.

External Debt

Malawi's debt burden is largely official and is the direct result of increased support from bilateral and multilateral creditors after the external shocks of the 1980s. In contrast to other developing countries, net flows and net transfers to Malawi have been strongly positive throughout the 1980s and early 1990s, reflecting the volume and concessionality of official flows.

Debt indicators for Malawi deteriorated sharply in the first half of the 1980s, not only because of the increase in debt flows, but because of a weakening in growth and export performance and significant decline in the terms of trade. Debt ratios have improved since 1987 with the recovery of export earnings and the efforts of creditors to shift to grants and concessional financing. In recent years, Malawi has followed a very conservative policy with regard to long- and medium-term debt and has contracted mainly concessional loans. The total stock of public and publicly guaranteed external debt held by the central government as of end-1994 was approximately $1,908 million, including external debt held by the parastatal sector of $98 million. The debt-GDP ratio reached 147 percent in the drought-affected year. Although the ratio is expected to drop with a return to higher GDP levels, it is expected to remain around 100 percent of GDP.

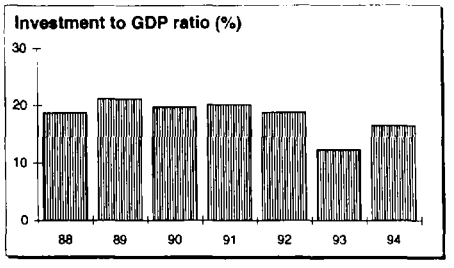
Malawi

Population mid-1993 *(millions)* **10.5**
GNP per capita 1993 *(US$)* **200**

Income group: **Low**
Indebtedness level: **Moderately indebted**

KEY RATIOS

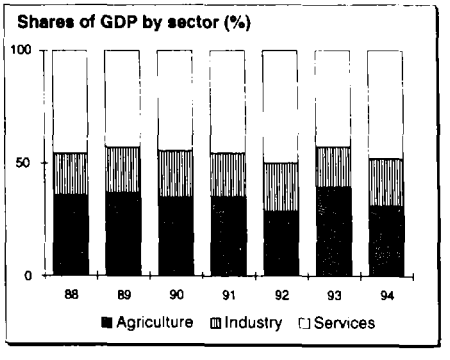
	1985	1990	1992	1993	1994
Gross domestic investment/GDP	18.6	19.7	18.8	12.3	16.5
Exports of goods and nfs/GDP	24.2	24.8	22.5	16.6	31.2
Gross domestic savings/GDP	12.9	9.7	1.9	1.8	-1.7
Gross national savings/GDP	9.1	6.6	-1.1	1.2	..
Current account balance/GDP	-8.5	-8.0	-18.6	-11.2	-20.3
Interest payments/GDP	2.6	1.8	1.6	1.4	2.4
Total debt/GDP	90.0	87.9	91.7	92.3	161.6
Total debt/exports	361.2	347.0	402.1	545.7	499.5



GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	36.6	34.4	28.3	39.2	30.7
Industry	18.7	20.9	21.7	18.1	21.2
Manufacturing	12.3	14.1	14.6	11.8	..
Services	44.7	44.7	50.0	42.7	48.1

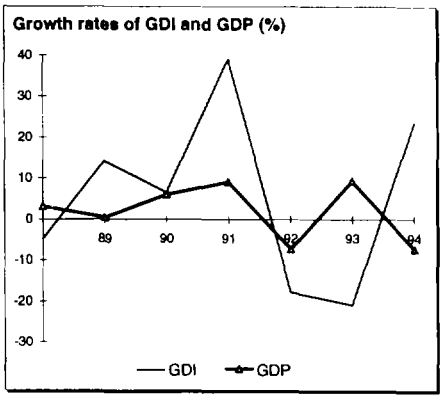
	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Agriculture	1.3	-0.4	-25.1	53.4	-29.3
Industry	4.9	0.2	2.4	-7.4	5.3
Manufacturing	4.9	-0.8	3.0	-10.5	5.4
Services	3.8	-0.2	0.8	-5.4	0.7
GDP	2.0	0.6	-7.3	9.3	-7.3



GDP: EXPENDITURE

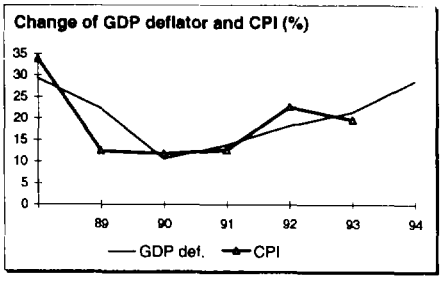
	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	69.4	74.6	79.5	81.5	87.7
General government consumption	17.7	15.7	18.5	16.7	13.9
Gross domestic investment	18.6	19.7	18.8	12.3	16.5
Exports of goods and nfs	24.2	24.8	22.5	16.6	31.2
Imports of goods and nfs	29.9	34.9	39.3	27.1	49.4

	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Private consumption	4.2	0.2	-8.7	7.9	-6.9
General government consumption	4.7	-4.4	0.7	-3.1	-18.5
Gross domestic investment	-0.8	-2.1	-17.8	-20.9	23.5
Exports of goods and nfs	-0.3	0.1	-2.9	-5.0	7.7
Imports of goods and nfs	4.7	-3.9	-9.3	-21.1	12.6
Gross national product	2.5	0.6	-7.3	9.6	-8.3
Gross national income	1.8	-1.2	-12.2	7.3	-7.2



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	10.5	11.8	22.7	19.7	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	8.9	10.6	18.3	21.4	28.7
Government finance					
(% of GDP)					
Current budget balance	-0.7	-0.2	-4.3	-3.3	-9.8
Overall surplus/deficit	-6.9	-7.3	-11.6	-8.7	-14.9



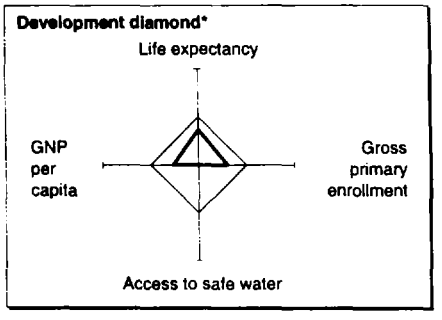
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Malawi

POVERTY and SOCIAL

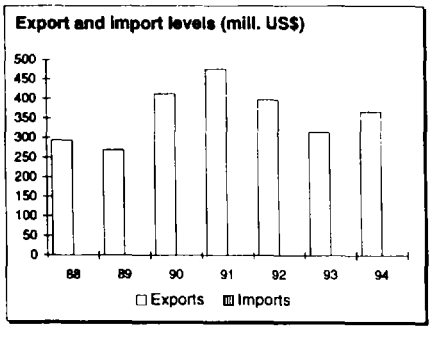
	1985-90	1990-94
(annual growth rates)		
Population	5.1	*3.9*
Labor force	2.6	2.6

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	45.4
Infant mortality *(per 1,000 live births)*	141.6
Child malnutrition *(% of children under 5)*	27.0
Access to safe water *(% of population)*	..
Energy consumption per capita *(kg oil equivalent)*	34.8
Illiteracy *(% of population age 15+)*	..
Gross primary enrollment *(% of school-age population)*	66.0



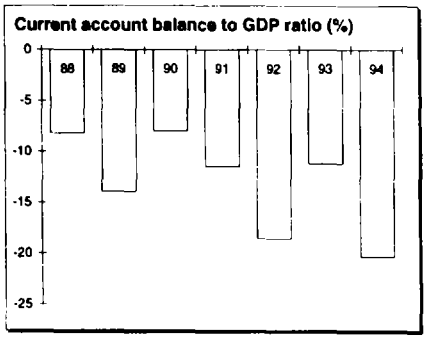
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	250	412	397	315	367
Sugar	26	28	27	16	27
Tea	53	47	30	35	31
Manufactures	16	28	28	32	32
Total imports (cif)	..	..	..	..	..
Food	..	..	..	..	..
Fuel and energy	..	..	..	..	..
Capital goods	..	..	..	..	..
Export price index *(1987=100)*	84	118	110	94	98
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP,%)*	54	60	62	44	81



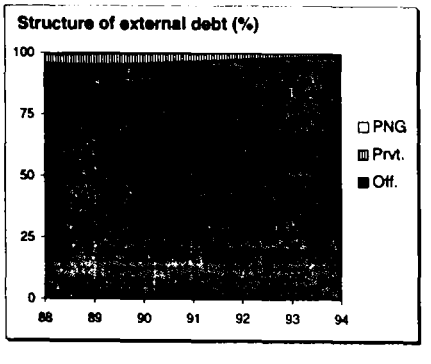
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	276	447	417	332	383
Imports of goods and nfs	331	537	706	541	597
Resource balance	-54	-90	-288	-209	-214
Net factor income	-53	-43	-39	-41	-46
Net current transfers	10	-11	-18	30	18
Current account balance					
Before official transfers	-97	-145	-345	-221	-242
After official transfers	-72	-64	-227	-143	-130
Long-term capital inflow	23	87	92	150	154
Total other items (net)	10	-6	20	21	-7
Changes in net reserves	40	-18	114	-29	-17
Memo:					
Reserves excluding gold *(mill. US$)*	45	137	40	57	..
Reserves including gold *(mill. US$)*	49	142	44	62	..
Conversion rate *(local/US$)*	1.7	2.7	3.6	4.5	8.9



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	281.0	308.3	368.6	516.5	495.3
IMF credit/exports	51.6	25.2	21.7	25.8	1.6
Short-term debt/exports	28.6	13.5	11.8	3.5	2.6
Total debt service/exports	38.9	23.7	24.9	22.3	20.0
GDP ratios					
Long-term debt/GDP	70.0	78.1	84.1	87.3	160.2
IMF credit/GDP	12.9	6.4	4.9	4.4	0.5
Short-term debt/GDP	7.1	3.4	2.7	0.6	0.8
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.2	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	11.7	4.4	2.6	1.8	1.0
Official creditors/long-term	88.3	95.4	97.4	98.2	99.0



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Mali

Mali is one of the poorest countries in the world, with a 1993 per capita income of around $270. Primary education enrollment rates are among the lowest in the world, at around 32 percent in 1994, and basic health services are not widely available. Only about a quarter of its vast 1.2 million square kilometers is arable, yet agriculture accounts for around half of GDP and three-quarters of export revenues, and provides a livelihood for close to 80 percent of its population of about 9.5 million, which is growing 3 percent a year. The mainstays of the traditional economy are millet, rice, and other cereals, and nomadic cattle raising for domestic consumption. Cotton and livestock make up the bulk of traditional exports. The modern sector includes gold and some light manufactures. Mali has significant potential in agriculture — of an estimated 500,000 hectares of potential irrigated rice only 50,000 hectares is under cultivation. Livestock, gold mining, and agroprocessing could constitute important sources of sustained longer-term growth. This potential has been constrained by poor economic management and development policies and the economy's resulting lack of competitiveness. This has been further compounded by extremely variable and harsh climatic conditions, low-productivity traditional technologies, and a poor human resource base. However, the stabilization and adjustment efforts pursued by the government in recent years, coupled with the devaluation of the CFA franc in January 1994, provide an opportunity for Mali to exploit more fully its comparative advantage in these areas.

Mali's first democratically elected government assumed office in June 1992. The government has survived severe political and social tensions, but at the cost of three changes in prime ministers and several cabinet reshuffles. Over the last year, the government has made significant progress in asserting the authority of the state while continuing to pursue the ongoing process of democratization. The political climate, however, still remains fragile, and a smoldering Tuareg rebellion in Northern Mali remains a source of concern and instability.

Structural Adjustment

Since 1988 the government of Mali has implemented a wide range of economic and sectoral policy reforms under its structural adjustment program. The underlying objective of the reform program was to improve the competitiveness of the economy and lay the foundation for sustained longer-term growth. Overall, the reforms allowed market forces greater play in determining economic outcomes and removed some bottlenecks to private-sector participation in economic activity. Domestic marketing and prices have been fully liberalized. The trade regime has been substantially simplified and liberalized with the removal of export and import monopolies, a streamlining and reduction of tariff rates, and elimination of nontariff barriers. The investment, commercial, labor, and procurement codes have all been revised to make them simpler and more flexible and remove distortions in the incentives framework. Until end-1993, the prevailing exchange rate policy of the CFA zone precluded the use of nominal exchange rate changes as a means of achieving real exchange rate depreciation and improved competitiveness. The focus was thus on internal adjustment — achieving significant real exchange rate depreciation by lowering domestic inflation rates below those of competitor countries and other trading partners through strict fiscal and monetary policies.

These measures improved economic performance over the adjustment period. Real GDP growth rose from an annual average of less than 2 percent over the first half of the 1980s to about 3 percent between 1988 and 1993. Inflation was kept in check, averaging under 3 percent. The overall fiscal deficit on a commitment basis and excluding grants declined from 12 percent of GDP in 1991 to 9.6 percent in 1993. Despite declining terms of trade due largely to falls in world market cotton prices, the current account balance improved from a deficit of 14 percent of GDP in 1991 to 13.2 percent of GDP in 1993.

Despite this improvement in economic performance, the internal adjustment strategy was unable to achieve appreciable improvements in Mali's external competitiveness. Industries such as textiles, shoes, plastic, and apparel, which flourished in the past, lost their competitive edge, and there was little incentive for new investment in local production. Mali's already fragile industrial base was weakened further, putting the sector

into a slump. Despite cost-efficiency gains in agriculture, cotton production was unable to recover its operating costs, and rice and livestock production remained below their full potential.

Comprehensive Adjustment

In January 1994 Mali joined other members of the CFA zone in devaluing the CFA franc 50 percent against the French franc. In line with the parity change, the government prepared a policy framework paper for 1994-96 outlining a series of macroeconomic and structural adjustment measures to consolidate and expand the initial competitiveness gains. These included tariff changes eliminating the "second best" policies that had been necessitated by the overvaluation of the currency, and measures to ensure as large a pass-through as possible of the gains from the parity change to cotton producers to encourage a strong supply response in this key sector. The government also undertook to maintain the momentum of ongoing structural adjustment. Full implementation of this strategy is expected to promote private-sector development, help generate the levels of growth critical for poverty alleviation, and increase equity through increased access to basic social services for the poorer segments of the population.

In February 1995 the government updated and expanded its policy framework paper for the period 1995-97. This framework builds on the progress achieved so far and reaffirms the government's commitment to maintaining and improving short-term stabilization gains through continued fiscal and monetary discipline and deepening and accelerating structural reforms. The framework provides a more comprehensive package of reforms across all key sectors and includes for the first time policies in the important mining sector.

Recent Economic Performance

The first year of the 1994-96 program was successful, and all macroeconomic measures were implemented — in particular, wage restraint, which is critical for ensuring competitiveness gains are not eroded, was strictly observed, with civil service wage increases limited to 15 percent. All macroeconomic targets were achieved and some were exceeded. The real effective exchange rate depreciated by about 35 percent in foreign currency terms. As a share of GDP, the fiscal deficit on a commitment basis and excluding grants is estimated at 13.4 percent compared to the programmed 15 percent, and the current account deficit was 19 percent, a percentage point lower than programmed. Inflation as measured by the GDP deflator was within the 35 percent that was programmed. While overall revenue targets were met, customs revenue receipts were about 27 percent lower than programmed, partly because of continued customs fraud and lower imports than anticipated. The government has already taken remedial steps. Real growth reached the 2.5 percent projected in the first year after the parity change, and it is expected that growth performance will be significantly stronger over the next few years.

Structural measures were also implemented as planned. Key measures included the June 1994 signing of a performance contract that for the first time makes the cotton parastatal, the government, and producers equal partners in decisionmaking in the sector. The contract allows for a 47 percent increase in the floor price of seed cotton to producers in the 1994/95 crop year, and raises the share of parastatal profits going to farmers from 25 percent to 35 percent. The devaluation, coupled with recent increases in world cotton prices, has restored the competitiveness of the cotton sector, and profits for the 1993/94 crop year are estimated at about CFAF 20 billion, compared to an originally projected deficit of CFAF 4 billion. Other measures included the ongoing restructuring of the rice parastatal to focus on a few key public services such as irrigation services and irrigation infrastructure maintenance, while privatizing all other functions — notably rice milling. A new law provides the legal framework for privatization, and a hotel, a textile firm, and some activities of a maritime company have been privatized. The government has begun major reforms to remove distortions in education resource allocation and use that include redeployment of 350 teachers from administrative to teaching positions, introduction of specific budget lines for primary education, and increased allocations in the 1995 budget for teaching materials and maintenance.

There is evidence of a strong supply response to the parity change. Livestock exports to neighboring countries are now more competitive with imports from the European Union and South America, and the volume of exports through formal channels has more than doubled since devaluation. Local rice is also now able to compete with imports from Asia without recourse to excessive tariffs, and exports of vegetables such as potatoes and onions to neighboring countries have increased. Industrial activity slowed because of a wait-and-see attitude adopted by much of the private sector during the first months after the devaluation, but a rebound was visible during the second semester. In Bamako, in particular, a significant number of small-scale businesses opened, including dairies, food processing plants, and soap manufacturers. Also two key textile-producing enterprises that had been closed for several years restarted operations in 1994. It is expected that these initial positive impacts will strengthen and provide a basis for sustained economic growth.

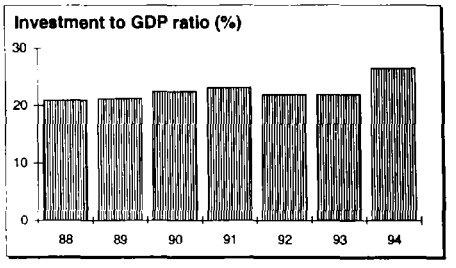
Mali

Population mid-1993 *(millions)* **10.1**
GNP per capita 1993 *(US$)* **270**

Income group: **Low**
Indebtedness level: **Severely indebted**

KEY RATIOS

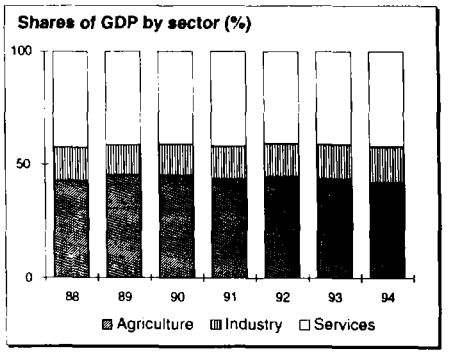
	1985	1990	1992	1993	1994
Gross domestic investment/GDP	19.6	22.4	21.9	21.9	26.5
Exports of goods and nfs/GDP	20.8	16.9	14.7	15.7	22.3
Gross domestic savings/GDP	-14.3	5.7	4.6	6.3	4.7
Gross national savings/GDP	-7.8	7.7	6.9	8.7	7.6
Current account balance/GDP	-26.9	-14.7	-15.0	-13.1	-18.9
Interest payments/GDP	1.2	0.7	0.4	0.3	0.6
Total debt/GDP	138.9	99.8	93.0	99.6	147.4
Total debt/exports	502.8	432.9	449.3	462.4	632.1



GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	47.3	45.1	44.6	43.7	42.0
Industry	14.8	14.0	14.7	15.4	16.1
Manufacturing	8.5	8.2	8.4	8.9	..
Services	37.9	40.9	40.7	40.9	41.9

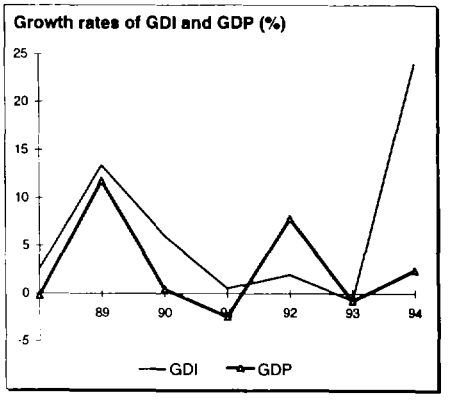
	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Agriculture	9.9	2.1	12.4	-4.9	7.3
Industry	1.6	3.6	5.0	3.7	1.0
Manufacturing	4.4	3.0	3.2	5.4	0.2
Services	2.4	1.4	3.8	2.6	-2.4
GDP	5.4	2.0	7.8	-0.7	2.4



GDP: EXPENDITURE

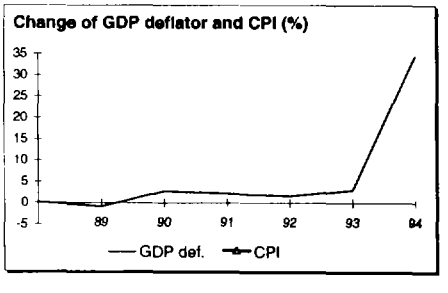
	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	100.7	80.8	81.7	82.1	83.4
General government consumption	13.6	13.5	13.7	11.6	11.9
Gross domestic investment	19.6	22.4	21.9	21.9	26.5
Exports of goods and nfs	20.8	16.9	14.7	15.7	22.3
Imports of goods and nfs	54.6	33.7	32.0	31.3	44.1

	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Private consumption	2.6	0.1	10.6	-3.0	-3.5
General government consumption	5.3	-2.0	-1.2	-5.0	-5.7
Gross domestic investment	6.9	4.9	2.0	-0.7	23.9
Exports of goods and nfs	5.2	4.3	3.2	8.7	-2.9
Imports of goods and nfs	-0.3	-0.8	3.9	-2.8	-3.7
Gross national product	6.1	2.0	7.8	-0.7	1.7
Gross national income	6.1	1.0	5.9	-1.3	1.8



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	..	..	..	..	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	3.3	2.7	1.7	3.0	34.5
Government finance					
(% of GDP)					
Current budget balance	-0.8	1.3	-1.1	0.1	-0.4
Overall surplus/deficit	-15.2	-8.5	-11.2	-9.6	-13.4



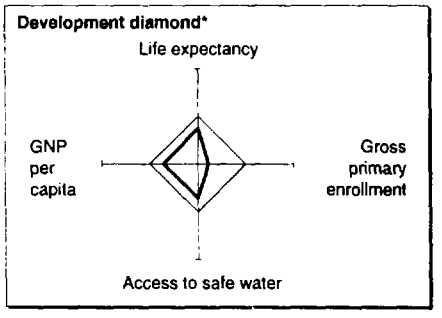
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Mali

POVERTY and SOCIAL

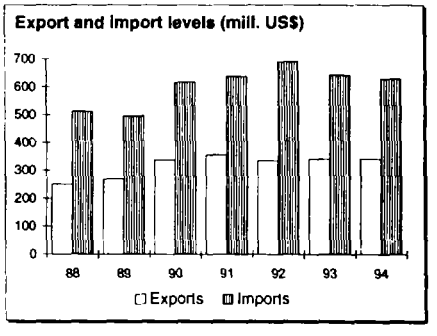
	1985-90	1990-94
(annual growth rates)		
Population	3.0	3.2
Labor force	2.6	2.7

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	46.4
Infant mortality *(per 1,000 live births)*	157.0
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	48.8
Energy consumption per capita *(kg oil equivalent)*	20.0
Illiteracy *(% of population age 15+)*	68.0
Gross primary enrollment *(% of school-age population)*	25.0



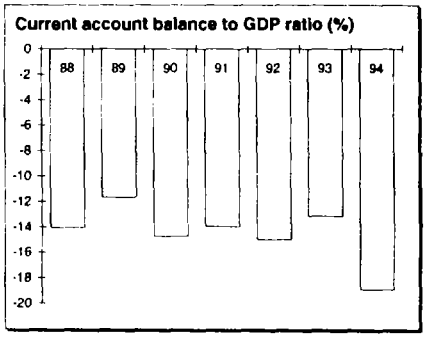
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	176	338	336	342	342
Cotton	78	169	151	147	155
Gold	..	45	62	61	61
Manufactures	..	..	..	..	..
Total imports (cif)	469	617	691	644	629
Food	141	71	102	90	73
Fuel and energy	80	56	73	74	73
Capital goods	105	194	201	183	191
Export price index *(1987=100)*	79	112	96	89	92
Import price index *(1987=100)*	73	108	113	108	111
Terms of trade *(1987=100)*	107	104	85	82	83
Openness of economy *(trade/GDP,%)*	75	51	47	47	66



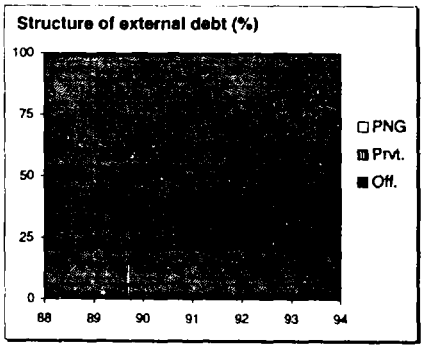
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	220	420	410	418	418
Imports of goods and nfs	578	835	892	833	825
Resource balance	-358	-415	-482	-415	-407
Net factor income	-14	-35	-30	-26	-32
Net current transfers	87	85	94	91	85
Current account balance					
Before official transfers	-284	-365	-418	-350	-354
After official transfers	-87	-139	-112	-125	-82
Long-term capital inflow	58	65	-7	-18	90
Total other items (net)	-11	126	127	167	87
Changes in net reserves	40	-52	-8	-24	-95
Memo:					
Reserves excluding gold *(mill. US$)*	23	191	308	332	..
Reserves including gold *(mill. US$)*	29	198	314	340	..
Conversion rate *(local/US$)*	449.3	272.3	264.7	283.2	555.2



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	445.6	410.8	428.5	437.2	609.6
IMF credit/exports	33.6	12.1	11.3	12.3	15.4
Short-term debt/exports	23.6	10.0	9.5	12.8	7.1
Total debt service/exports	18.1	11.4	7.6	4.6	7.3
GDP ratios					
Long-term debt/GDP	123.1	94.7	88.7	94.1	142.1
IMF credit/GDP	9.3	2.8	2.3	2.7	3.6
Short-term debt/GDP	6.5	2.3	2.0	2.8	1.7
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	3.4	0.8	0.2	0.1	0.1
Official creditors/long-term	96.6	99.2	99.8	99.9	99.9



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Mauritania

Mauritania is a vast country, with a population of 2 million and a very limited resource base. Virtually all of its 1.1 million square kilometers is desert, and it faces serious environmental degradation from deforestation, overgrazing, and cultivation of marginal lands, all of which contribute to soil erosion. Its major economic activities include iron mining in the north, the fishing industry in and around Nouadhibou, and exploitation of the agricultural and livestock potential in the Senegal River Valley. Earnings from iron ore, which formerly represented the largest source of foreign exchange earnings, have been declining as demand and prices has fallen on the world market since the mid-1980s. Fish exports have become the predominant source of foreign exchange earnings, generating 54 percent of total export receipts in fiscal 1994. This sector represents a promising source of economic growth, with potential for greater domestic inputs, though the 1990 and 1992 declines in production volume of 11.2 percent and 6.0 percent respectively were worrisome, given the risk of premature depletion if the resources are not well managed. With livestock as a driving force, the primary sector contributes about one-third of GDP.

As a result of recurrent droughts and difficult economic conditions in the rural areas during the last two decades, there has been substantial migration to urban centers, where about half of the Mauritanian population now lives. Rapid urban growth has increased unemployment and poverty in urban areas. Life expectancy at birth is estimated at 52 years; infant mortality is 99.2 per 1,000 live births; and 55 percent of school-age children attend primary school, while only 34 percent of the population is literate in either Arabic or French. Progress in addressing social issues is constrained by population growth of 2.8 percent a year. Per capita GNP in 1993 was $500.

Mauritania's economic development through the mid-1980s was uneven and marked by major financial imbalances and highly interventionist government policies. Despite investment rates as high as 36 percent of GDP in the early 1980s, the long-term rate of growth averaged only 2 percent, slower than that of the population. Moreover, domestic savings, which in Mauritania's early years of independence exceeded investment, only a fifth of investment by the early 1980s. The consequent expansion of external financing led to a growing and eventually unsustainable level of indebtedness. While drought and unfavorable terms of trade contributed to this poor performance, there was increasing evidence that economic strategy and policies were in need of change. Faced with a deepening crisis, the government adopted, in 1985, a comprehensive Economic and Financial Recovery Program for 1985-88, which was followed by a Consolidation Program for 1989-91. The adjustment effort was supported by the IMF and IDA.

Macroeconomic performance improved considerably through 1989. Real GDP growth rose to 3.4 percent a year over 1985-89. The overall consolidated government deficit on a commitment basis, excluding grants, declined from 14.7 percent of GDP in 1985 to 10.6 percent in 1989. Mauritania's external position also evidenced steady improvement, as food imports declined in response to improved incentives in the agricultural sector and favorable weather conditions. As a share of GDP, the current account deficit (excluding official transfers) declined from 31 percent in 1985 to 14.5 percent in 1989. The number of civil servants was frozen, while public investments were cut from 10.4 percent of GDP in 1985 to 5.5 percent in 1989. Interest rates were positive in real terms. In parallel with macroeconomic measures, several key structural reforms were put in place. Project selection and budget procedures were considerably strengthened. Price control systems were liberalized, all import licenses and quotas were abolished, and rice processing and marketing were privatized, with the result that the Mauritanian economy has become more market-oriented.

Recent Economic Developments

The Mauritanian economy suffered a series of internal and external shocks between early 1989 and 1992 that had a severe impact on economic and financial performance, disrupted economic activity, and slowed its adjustment effort. Unfavorable weather conditions, institutional bottlenecks, and a difficult sociopolitical

situation affected output in agriculture, mining, and fisheries. Sharp cutbacks in external financing occurred as a consequence of the April 1989 Senegal-Mauritania crisis and the 1991 Persian Gulf crisis. These factors contributed to slippage in economic decisionmaking and priority setting. Signs of reversal of the reform were obvious: real GDP growth fell to 1.7 percent in 1992 and domestic financial imbalances re-emerged. The fisheries sector continued to be an enclave with no linkages with the rest of the economy. The agricultural sector underwent a significant setback, and poor management and inadequate supervision hampered the attainment of the 1987-90 banking restructuring program.

The deterioration of the domestic financial position was reflected in a weakening balance of payments. The external current account deficit, excluding official transfers, widened from 14.5 percent of GDP in 1989 to 16.6 percent in 1992, owing in part to a drop in fish export earnings, an increase in imports linked to the public investment program, and the development of a new mining project. The overall consolidated government deficit on a cash basis, excluding grants and restructuring operations, increased from 1.6 percent of GDP in 1990 to 3.1 percent in 1992. These deficits were financed by credit from the central bank and caused an accumulation of arrears on external debt, estimated at SDR 189.9 million at end-1992. This, combined with a swift increase in credit to the agricultural and fisheries sectors, led to an expansion in the money supply and greater inflationary pressures.

Mauritania has intensified its adjustment effort and structural reform since September 1992. The results have been encouraging. A substantial adjustment in the exchange rate took place in October 1992; the exchange system has been liberalized, an auction system for import authorizations implemented, and the limits for transactions in invisibles eliminated. Progress in stabilizing the economy and implementing reforms has been encouraging. Real GDP growth rose in 1993/94 to an estimated 4.5 percent, reflecting improved performance in agriculture (10 percent) and mining (21 percent). Despite the 1992 devaluation, consumer price inflation was contained to 9.3 percent in 1993, below the targeted 13 percent, and declined to 4.1 percent in 1994. Foreign exchange reserves increased to 1.3 months of imports from 0.9 month in 1990. The current account deficit, excluding official transfers, declined from 21.5 percent of GDP in 1990 to an estimated 14.2 percent in 1994. The consolidated government fiscal deficit on a commitment basis, excluding grants, decreased from 5.4 percent of GDP in 1992 to an estimated 4.3 percent in 1994. Although the debt burden was relieved by the January 1993 Paris Club rescheduling, debt service paid in 1993 — 30 percent of exports of goods and services, after debt relief — was still burdensome.

Progress in implementing key structural reforms in trade, foreign exchange, pricing, the tax system, public enterprises, public expenditure, civil service, social sector policies, and enhancing the role assigned to market forces have been key elements in containing inflation and redressing external imbalances. The government has fully privatized all commercial banks, restructured two joint-venture financial institutions, liquidated the development bank, strengthened bank supervision, enacted a new nonperforming-loan-recovery law, and established a special agency responsible for the recovery effort, and created a rural credit system based on cooperative principles. The exchange system was liberalized, notably through the elimination of prior export authorizations and of the preferential exchange rate for workers' remittances, and the removal of limits on transfers for invisibles payments. A free market for foreign currency banknotes and travelers checks was created, and the surrender requirements for foreign exchange receipts were made more flexible. Government has also raised public utility tariffs to levels reflecting economic and financial costs and improved bill collection. Government has either privatized or liquidated several public enterprises and eliminated subsidies to all public enterprises.

All government monopolies and price controls have been abolished. The government has lowered the civil service retirement age, frozen all recruitment except for the education and health sectors, computerized the civil service management system, and implemented a competitive examination system for recruitment. Institutional reform of the fisheries sector has taken longer than expected, with delays in strengthening surveillance over fishing activity and privatizing marketing arrangements. While implementation of the program has led to significant gains, these must be viewed as fragile against the background of a still large foreign debt, a gloomy iron-ore and fisheries export environment, and remaining severe structural impediments to private sector growth and external viability.

Medium-Term Prospects

The Mauritanian economy remains fragile, and its medium-term prospects are constrained by a limited natural and human capital resource base, a high degree of vulnerability to exogenous factors such as climatic conditions and commodity prices, a low revenue base, and a heavy debt service burden. The experience of recent years has made it clear that without macroeconomic stability and access to sufficient external financing, sustainable growth will remain out of reach.

The government's macroeconomic objectives for the medium term have been translated into concrete actions and stabilization targets for 1995-97. Over the medium term, the focus will be on continued strengthening of

public resource management, further enhancement of the enabling environment for private sector investment and growth, and an acceleration in its program to develop the country's human resources. The key components of the program include maintaining price stability through sustained implementation of fiscal and monetary restraint, and creating a transparent market-related exchange and international trade system to foster competition and eliminate obstacles to investment and production. The government also plans to continue reforming Mauritania's institutional framework, including the judicial and regulatory systems; it will reform the of fisheries sector by introducing a transparent and market-related system of access rights, strengthening surveillance, privatizing marketing and production, and adopting exit mechanisms for nonviable enterprises. Other objectives include strengthening financial intermediation and resolving external debt problems, especially eliminating the payment arrears to official and private creditors.

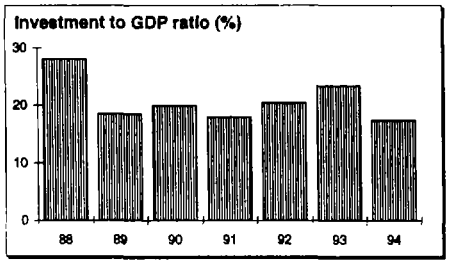
Mauritania

Population mid-1993 *(millions)* **2.2**
GNP per capita 1993 *(US$)* **500**

Income group: **Low**
Indebtedness level: **Severely Indebted**

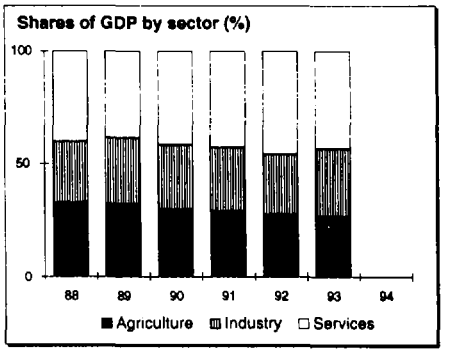
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	28.9	20.0	20.5	23.4	17.4
Exports of goods and nfs/GDP	60.8	46.4	38.8	45.7	43.2
Gross domestic savings/GDP	8.8	5.6	7.2	9.7	9.5
Gross national savings/GDP	4.4	0.6	5.6	4.7	6.3
Current account balance/GDP	-24.5	-19.4	-14.8	-18.7	-11.2
Interest payments/GDP	4.0	3.4	1.6	4.5	3.7
Total debt/GDP	217.4	210.2	179.6	232.6	213.5
Total debt/exports	353.7	436.9	411.3	482.5	485.7



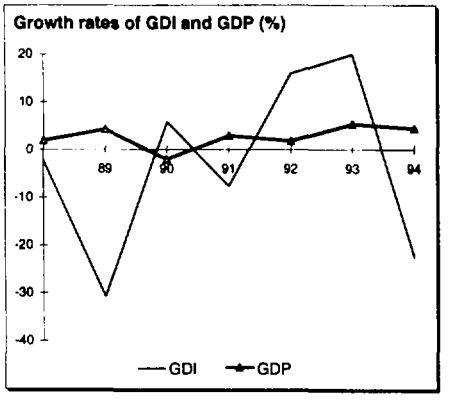
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	22.5	29.6	27.4	26.6	..
Industry	32.9	28.8	26.8	30.2	..
Manufacturing	12.9	10.3	10.9	12.4	..
Services	44.6	41.6	45.7	43.3	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	2.5	5.3	1.8	9.7	5.1
Industry	2.5	2.0	-2.2	7.1	3.9
Manufacturing	-2.1	2.3	11.1	5.5	-16.9
Services	3.6	2.8	3.9	0.7	3.4
GDP	2.4	3.6	1.8	5.3	4.4



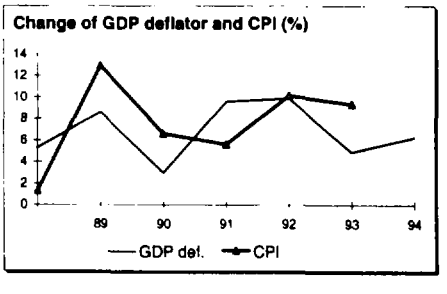
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	74.9	83.3	82.3	79.4	80.3
General government consumption	16.2	11.0	10.5	10.9	10.2
Gross domestic investment	28.9	20.0	20.5	23.4	17.4
Exports of goods and nfs	60.8	46.4	38.8	45.7	43.2
Imports of goods and nfs	80.8	60.7	52.1	59.4	51.1
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	3.7	1.7	5.3	-8.4	9.5
General government consumption	-4.4	0.8	-2.1	0.9	-2.3
Gross domestic investment	-7.0	3.2	15.9	19.9	-22.5
Exports of goods and nfs	-0.4	-3.8	-10.2	9.6	-13.0
Imports of goods and nfs	-3.0	-5.3	1.7	-8.3	-14.8
Gross national product	3.0	3.4	1.6	3.5	6.1
Gross national income	2.8	2.9	0.6	-2.7	8.9



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	..	6.6	10.1	9.3	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	10.3	3.0	9.9	4.9	6.3
Government finance					
(% of GDP)					
Current budget balance	-5.4	-1.6	-1.1	-5.3	-2.4
Overall surplus/deficit	-14.7	-7.3	-5.4	-11.0	-2.4

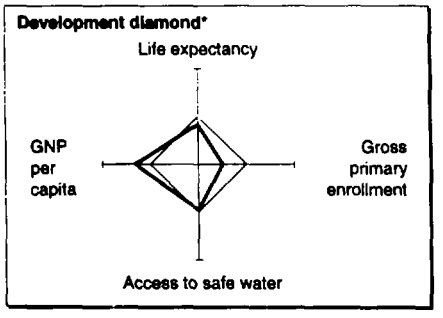


Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

POVERTY and SOCIAL

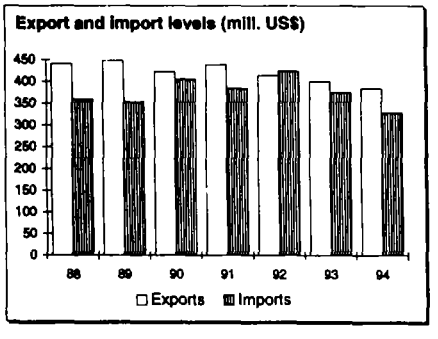
	1985-90	1990-94
(annual growth rates)		
Population	2.5	2.5
Labor force	2.8	3.1

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	51.9
Infant mortality *(per 1,000 live births)*	99.2
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	65.8
Energy consumption per capita *(kg oil equivalent)*	104.6
Illiteracy *(% of population age 15+)*	66.0
Gross primary enrollment *(% of school-age population)*	55.0



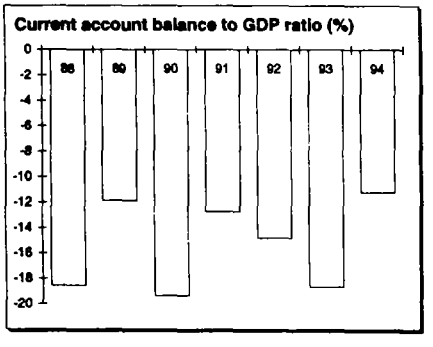
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	378	422	414	400	384
Iron	150	208	155	159	158
Fish	224	206	245	221	208
Manufactures	..	..	..	..	..
Total imports (cif)	334	405	424	375	329
Food	93	118	127	108	99
Fuel and energy	41	43	43	35	35
Capital goods	82	82	111	100	59
Export price index *(1987=100)*	94	110	124	105	117
Import price index *(1987=100)*	95	106	101	100	111
Terms of trade *(1987=100)*	99	104	122	105	105
Openness of economy *(trade/GDP,%)*	142	107	91	105	94



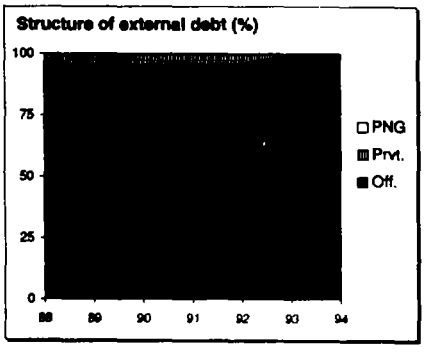
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	415	473	462	433	424
Imports of goods and nfs	552	619	620	563	504
Resource balance	-137	-146	-157	-130	-79
Net factor income	-52	-59	-67	-69	-61
Net current transfers	-24	-14	27	-1	1
Current account balance					
Before official transfers	-167	-198	-177	-177	-115
After official transfers	-86	-131	-104	-94	-18
Long-term capital inflow	63	5	19	35	31
Total other items (net)	1	89	82	37	-19
Changes in net reserves	22	37	3	22	5
Memo:					
Reserves excluding gold *(mill. US$)*	59	54	61	45	40
Reserves including gold *(mill. US$)*	63	59	65	49	44
Conversion rate *(local/US$)*	77.1	80.6	87.0	120.8	123.6



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	317.4	372.6	359.0	429.3	450.9
IMF credit/exports	10.9	14.3	11.1	13.9	15.9
Short-term debt/exports	25.3	50.1	41.1	39.4	18.8
Total debt service/exports	24.3	30.3	16.2	27.4	23.9
GDP ratios					
Long-term debt/GDP	195.1	179.2	156.8	206.9	198.2
IMF credit/GDP	6.7	6.9	4.9	6.7	7.0
Short-term debt/GDP	15.6	24.1	17.9	19.0	8.3
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	9.7	5.3	4.7	0.9	0.4
Official creditors/long-term	90.3	94.7	95.3	99.1	99.6



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Mauritius

Mauritius is a country of three islands in the Indian Ocean with a land area of 1,865 square kilometers and a 1993 population of about 1.1 million growing at 1 percent a year. Mauritius became independent in 1968 and has since been a parliamentary democracy. Ethnic and political diversity contributes to the country's vitality and entrepreneurial spirit. Since independence Mauritius has evolved from a low-income, agriculture-based economy with a GNP per capita of about $300 (1970 dollars) to a middle-income diversified economy with a GNP per capita of about $3,030 in 1993. During the 1970s growth was spurred by sugar production, which provided almost 20 percent of GDP and over half of export earnings. Diversification into manufacturing and tourism led to a reduction in the role of the sugar sector to 6 percent of GDP and about 23 percent of export earnings in 1993. Industrial output comes primarily from an export processing zone created in 1976, which accounted in 1993 for 12 percent of GDP and almost 56 percent of gross export earnings. Tourism expanded from less than 1 percent of GDP and less than 3 percent of foreign earnings in the 1970s to 5 percent and 19 percent, respectively, in 1993. Economic growth and sound public expenditure policies helped improve social indicators: in 1992, life expectancy was 70 years, infant mortality was 17 per 1,000, and the entire population had access to safe water.

Recent Economic Developments

With the exception of a relatively short period (1979-81) of sluggish growth largely due to external shocks and misguided fiscal policies, Mauritius' record is one of solid growth and prudent financial management. Its strong performance has been made possible by a liberal economic environment, including an open exchange and trade regime, incentives for foreign private investment, strong resource mobilization, conservative public expenditure policies, prudent credit expansion, and good governance. Over 1968-93, Mauritius's real GDP grew at an average rate of 5.3 percent and exports grew 6.1 percent a year in real terms. The fiscal deficit averaged 2.6 percent of GDP, and the current account deficit of the balance of payments averaged 4.2 percent of GDP, both indications of the government's prudent financial management. Inflation averaged 9.4 percent over the same period, declining to 4.6 percent in 1992, compared with about 13 percent in 1989/90.

Performance in 1993 was mixed. GDP growth remained strong at 5 percent, slower than the average of recent years due to inclement weather. Savings and investment were also strong at 24 percent and 30 percent of GDP, respectively. However, following an average 20 percent increase in public sector wages in July and the elimination of subsidies on flour, rice, and sugar, inflation rose to 10.5 percent. The government took steps to contain the fiscal deficit (excluding grants) at 2 percent of GDP, and the current account deficit at below 3 percent of GDP.

Poverty and Social Indicators

Over the last decade, Mauritius' population has witnessed a doubling of its per capita income and higher social standards, and has now the standards of living of a middle-income developing country. Standards of nutrition, health care, and general education exceed those of most neighboring countries and are comparable to other middle-income countries'. The benefits of the rapid increase in per capita income and full employment have reached the vast majority of Mauritians. Preliminary results of a household expenditure survey conducted in 1991 document the broad distribution of the benefits of growth. The government has also put in place extensive social safety mechanisms to alleviate poverty.

During the coming years, the Mauritians face the challenge of adapting smoothly to the demands of an emerging industrial society. Three areas of concern have been identified as deserving priority action: a lagging supply of housing compared with the increase in family incomes, unsatisfied demand for labor-saving home appliances and child care services by the growing proportion of women in the labor force, and a potential threat to the financial integrity of the social security and pension systems as the population gets progressively older. The first issue is being addressed by the introduction of

changes in property market regulation to permit a greater private role in providing housing. The second is being tackled through the reduction in import duties on home appliances and incentives for private investment in child care services. The third issue is being tackled through a thorough review of the actuarial characteristics of the demographic transition and its likely future impact on the social security and pension systems to set a basis for reforms.

Key Development Issues

Mauritius's past export-led growth largely relied on its ability to deploy underutilized labor resources, and its external competitiveness took advantage of low relative wages and the availability of the limited skills required by first-stage industrialization. It also benefited from preferential arrangements with the European Union, which guaranteed high prices for its sugar under the Sugar Protocol of the Lomé Convention, and duty-free entry for its textile exports. Since 1988, however, the economy has faced increasing constraints as the country neared full employment and the labor market tightened. In the face of labor shortages, explicit linkage of wage settlements — determined by annual tripartite negotiations among the government, the private sector, and labor unions — to past inflation rather than productivity gains builds up inertia in the system and makes macroeconomic management more difficult. Rising inflation (11.8 percent during 1988/90 and 7.5 percent over 1991-93) is starting to erode external competitiveness, particularly critical for an open economy such as that of Mauritius, with foreign trade representing over 105 percent of GDP in 1993. In addition, general trade liberalization under the GATT Uruguay Round raises doubts about the future of Mauritius's market preferences.

Mauritius is thus at a critical juncture in its development, as it aspires to enter the ranks of newly industrialized economies. The shortage of labor and uncertainty about the continuance of its market preferences mean that Mauritius has to acquire a new edge over competitors to maintain its growth momentum. The main challenge facing Mauritius is its ability to compete with countries offering higher labor skills and productivity at similar or even lower wage levels. Mauritius could increase productivity by improving technology and reallocating labor to higher productivity sectors. This implies increased emphasis on technical education and manpower training, and more flexible labor markets, including increased labor mobility between the public and private sectors. A start toward modernizing the financial system needs was made in 1992 with the elimination of credit ceilings and the consolidation of 12 incentive regimes into three categories.

Sugar production and export will remain critical to agriculture in the foreseeable future. In the past, the government encouraged food self-sufficiency, rather than diversification into alternative export crops, despite the fact that many of the existing food crops cannot be produced economically given the climatic conditions. The best way of reconciling legitimate concerns relating to food security with efficiency considerations is to ensure that scarce resources, particularly land and labor, are devoted to crops that yield the highest returns. For example, Mauritius already successfully produces cut flowers for the European market and could grow tropical fruits for the same market.

In industry, notwithstanding rapid growth over the past decade, the export processing zone is highly concentrated in apparel, and thus fragile. Outside garments, there are as yet few significant export industries. The only significant nontextile exports are watches and clocks (3 percent of exports), pearls, precious and semiprecious stones (1.6 percent), and canned tuna (1.5 percent). The government has encouraged diversification through fiscal incentives such as the rapid write-off of capital invested in the new priority areas. There are some indications that new investments are taking place in precision assembly industries such as mechanical, optical, and electronic assembly operations, and in "brain-service exports" such as slow-turnaround data entry, software, translation, digitizing of maps and drawings, and consulting. In addition to investing in developing labor skills, further government measures should reduce red tape and provide information to potential investors on conditions in export markets, including restrictions that may affect specific industries, and on environmental norms and guidelines.

Mauritius has emphasized low-impact, high-spending tourism by promoting an upmarket profile aimed at increasing expenditure per tourist and per tourist-night. Expecting high sustained growth in the sector in the 1990s, the government granted licenses for the construction of a number of hotels — which came on the market when demand growth slowed down because of the decline in growth of arrivals from France and South Africa, increases in air fares and hotel costs, and a shift by tourists to informal accommodation. With an annual increase in arrivals of 10 percent over 1992-93, demand has all but caught up with capacity.

Mauritius has begun to develop offshore banking and regional trade as new sources of growth by establishing an offshore banking center (1988) and a free port (1992). The authorities expect to attract investment funds through the banking center along with other flows of valuable financial, commercial, and industrial intelligence, while providing business opportunities for the country's legal and accounting professions. By Decem-

ber 1992 seven banks were operating in the center and accounting for about 15 percent of total commercial banking assets. The free port will offer facilities for storage, warehousing, bulk-breaking, minor processing, and re-export free of domestic taxes. The benefits of the free port activities are expected to be mainly in the jobs and incomes generated through value added in goods reconditioned for re-export.

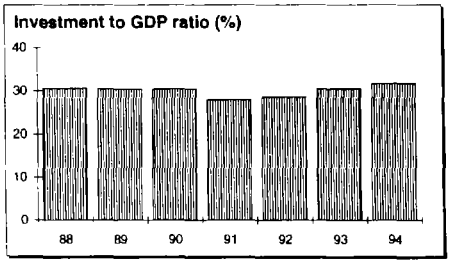
Mauritius

Population mid-1993 *(millions)* **1.1**
GNP per capita 1993 *(US$)* **3,030**

Income group: **Upper-middle**
Indebtedness level: **Less indebted**

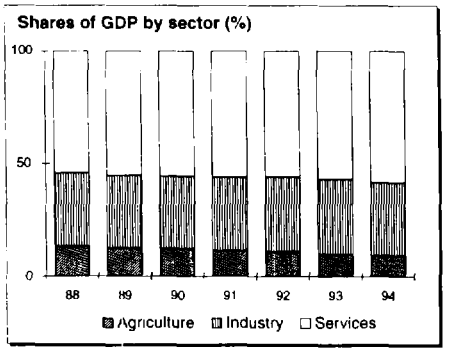
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	23.5	30.4	28.6	30.5	31.7
Exports of goods and nfs/GDP	53.5	67.4	62.1	61.0	60.9
Gross domestic savings/GDP	21.6	23.0	25.2	24.2	23.3
Gross national savings/GDP	15.3	25.3	28.4	26.5	24.4
Current account balance/GDP	-8.2	-5.2	-0.2	-4.2	-7.3
Interest payments/GDP	2.6	1.6	1.8	1.4	1.5
Total debt/GDP	58.4	37.9	34.1	30.4	31.0
Total debt/exports	108.8	54.4	52.5	48.1	49.0



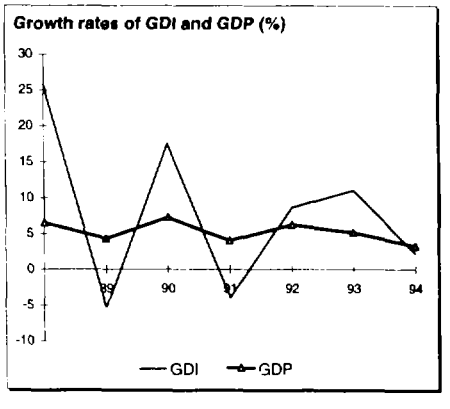
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	15.3	12.3	11.1	9.9	9.4
Industry	29.2	32.2	33.2	33.4	32.4
Manufacturing	20.6	23.5	23.2	23.3	21.7
Services	55.5	55.6	55.8	56.7	58.2
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	-1.2	1.5	6.5	-2.5	4.0
Industry	10.1	7.0	7.3	6.2	9.5
Manufacturing	10.4	7.7	6.4	10.0	9.5
Services	6.8	5.1	6.5	5.5	3.1
GDP	7.4	4.9	6.2	5.2	3.3



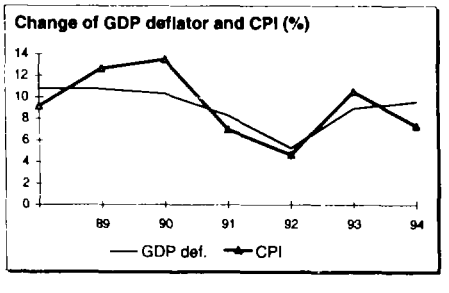
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	68.2	67.3	65.0	65.9	66.2
General government consumption	10.2	9.8	9.7	9.9	10.5
Gross domestic investment	23.5	30.4	28.6	30.5	31.7
Exports of goods and nfs	53.5	67.4	62.1	61.0	60.9
Imports of goods and nfs	55.4	74.8	65.5	67.4	69.3
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	11.4	4.8	4.8	6.2	6.5
General government consumption	5.5	1.1	4.6	-3.2	0.4
Gross domestic investment	10.5	5.4	8.6	11.1	2.2
Exports of goods and nfs	12.7	4.6	3.4	5.0	6.1
Imports of goods and nfs	18.3	4.3	2.9	7.3	8.2
Gross national product	7.9	5.3	6.4	4.7	4.8
Gross national income	8.5	4.5	6.5	3.0	4.1



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	6.7	13.5	4.6	10.5	7.3
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	7.5	10.3	5.3	9.0	9.6
Government finance					
(% of GDP)					
Current budget balance	-1.8	2.3	2.9	2.8	2.0
Overall surplus/deficit	-6.0	-2.3	-2.1	-2.0	-3.1



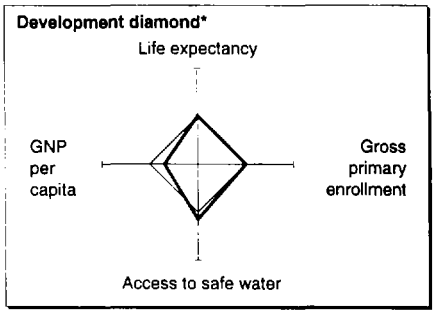
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Mauritius

POVERTY and SOCIAL

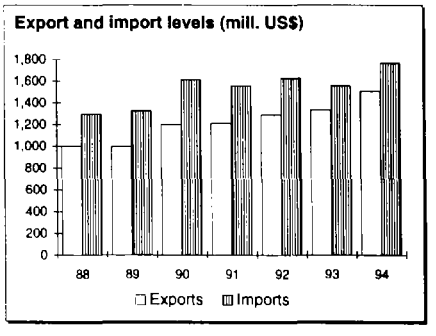
	1985-90	1990-94
(annual growth rates)		
Population	0.8	1.1
Labor force	2.4	1.9

	most recent estimate
Poverty level: headcount index *(% of population)*	5.2
Life expectancy at birth	70.5
Infant mortality *(per 1,000 live births)*	17.4
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	100.0
Energy consumption per capita *(kg oil equivalent)*	391.4
Illiteracy *(% of population age 15+)*	..
Gross primary enrollment *(% of school-age population)*	106.0



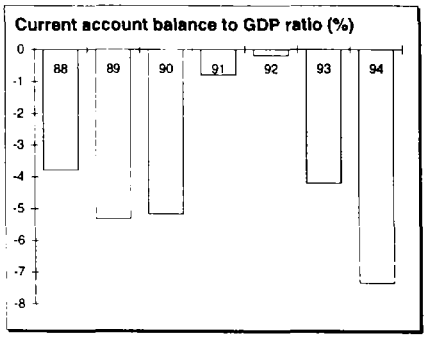
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	430	1,201	1,292	1,336	1,509
Sugar	186	351	364	359	370
Textiles	177	642	703	777	868
Manufactures	212	768	841	920	1,034
Total imports (cif)	526	1,611	1,626	1,559	1,766
Food	87	176	189	268	254
Fuel and energy	74	130	124	128	134
Capital goods	72	423	368	400	424
Export price index *(1987=100)*	71	104	104	108	111
Import price index *(1987=100)*	72	98	90	84	88
Terms of trade *(1987=100)*	98	107	115	128	126
Openness of economy *(trade/GDP,%)*	109	142	128	128	130



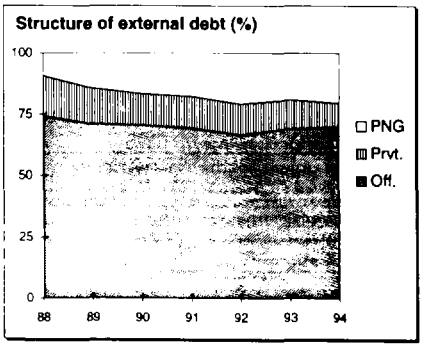
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	576	1,724	1,913	2,003	2,048
Imports of goods and nfs	597	1,915	2,017	2,213	2,330
Resource balance	-21	-191	-104	-210	-282
Net factor income	-45	-23	11	-7	-7
Net current transfers	-22	82	87	79	42
Current account balance					
Before official transfers	-88	-132	-6	-138	-247
After official transfers	-74	-107	13	-136	-245
Long-term capital inflow	26	137	20	73	71
Total other items (net)	67	203	13	123	253
Changes in net reserves	-19	-232	-46	-60	-79
Memo:					
Reserves excluding gold *(mill. US$)*	30	738	820	757	748
Reserves including gold *(mill. US$)*	42	761	841	781	771
Conversion rate *(local/US$)*	15.4	14.9	15.6	16.7	18.5



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	71.4	50.2	46.9	42.6	43.7
IMF credit/exports	28.5	1.2	0.0	0.0	0.0
Short-term debt/exports	8.8	3.0	5.6	5.5	5.4
Total debt service/exports	24.3	8.6	8.1	6.1	6.5
GDP ratios					
Long-term debt/GDP	38.4	34.9	30.5	26.9	27.6
IMF credit/GDP	15.3	0.9	0.0	0.0	0.0
Short-term debt/GDP	4.7	2.1	3.6	3.5	3.4
Long-term debt ratios					
Private nonguaranteed/long-term	3.6	16.5	20.7	18.9	20.3
Public and publicly guaranteed					
Private creditors/long-term	21.9	12.9	12.5	11.8	9.7
Official creditors/long-term	74.5	70.6	66.8	69.3	70.0



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete

Mozambique

Mozambique turned a new page in its history in 1994 as the successful conclusion of the 1992 peace agreement set the stage for long-lasting peace and political stability. The first multiparty elections were held in October and were won by the Frelimo party. The results were endorsed by all parties concerned, and a new government was established. An 85 to 90 percent turnout of registered voters at the elections signaled a clear commitment to peace by the Mozambican people. In addition, a new army, consisting of both Renamo and government troops, was formed following the demobilization of about 80,000 soldiers in 1994 under the supervision of the United Nations. The restoration of peace since the signing of the peace agreement in October 1992 has led to the resettlement of 3.2 million displaced people and the return of over 1 million refugees from neighboring countries.

Mozambique's performance must be assessed against the background of immense distortions that characterized its economy when the government's rehabilitation program was launched in 1987. The advantages the country inherited at independence in 1975 — a good basic infrastructure and export base — had disappeared after long years of rigid central planning and a vicious internal war. The consequences were a sharp fall in Mozambique's GDP, a high level of indebtedness — the debt stock was equal to 45 times exports — and extreme poverty affecting two-thirds of the population.

The Economic and Social Rehabilitation Program

In the initial period of adjustment starting in 1987 priority was given to reducing price and exchange distortions, removing administrative controls, rehabilitating state enterprises, and narrowing domestic and external imbalances.

Significant progress has been achieved in improving financial incentives through price and trade liberalization. Administered consumer prices are now limited to wheat and wheat flour, rents, utilities, and transport fares. Fixed prices for manufactured products were first replaced by a system of ex-post review and subsequently liberalized. Overall, the share of output subject to price control fell from 69 percent to below 5 percent of total production in 1993. In parallel with price adjustments, the government has opened domestic and external trade, allowing increased competition among traders and permitting direct trading between enterprises. Price and marketing distortions, however, prevail within the agricultural sector in some important commodities, such as cashews, with negative impact on overall export earnings and incomes for thousands of family farmers.

Various foreign exchange windows, including donor import support funds, were unified in April 1992 into a market-based system to improve foreign exchange allocation. With the exception of a small negative list, import licenses are now being issued automatically, and all foreign exchange is channeled through the banking system. Under the new system the official exchange rate is determined by market forces. The parallel market premium has remained at 10 to 20 percent, down from 150 percent in 1990.

After the 1991 Privatization Act the government decreed that all state enterprises — with the exception of strategic enterprises that provide essential public goods and services — were to be either privatized, transformed into commercially oriented public enterprises, or liquidated. By the end of 1994 about 360 small and medium enterprises and another 19 large ones had been privatized through either direct sales or leasing arrangements. To speed privatization of large enterprises, the government has simplified procedures and made the process more transparent by publishing winning bids. Reform of some utility parastatals, including the electricity, telecommunications, and petroleum companies, has also commenced, albeit at a slow pace. The post office and telecommunications parastatals were transformed into commercially oriented public enterprises in 1993. The future of the railways and the airline, two major loss-making parastatals, is still under discussion.

Financial sector reform has also been initiated to improve banking services and stop the transfer of financial resources to loss-making parastatals. Since independence the banking sector was dominated by the Bank of Mozambique, which operated both as the central bank and as a commercial bank. In December 1991 new central banking and general banking laws were enacted,

and in early 1992 the Bank of Mozambique was separated into Banco Commercial de Mozambique and the central bank. Emphasis is now being given to strengthening the central bank's monetary control, supervision, and foreign exchange management. Measures to increase the competitiveness of the commercial banks focus on rapidly restructuring state-owned commercial banks, in particular Banco Commercial, which still accounts for 50 percent of bank lending and has a large nonperforming portfolio. Business strategy plans and the first external audits for the Banco Commercial and Banco Popular de Desenvolvimento have been completed, and the government plans to privatize both banks.

Progress in reducing domestic and external imbalances has been limited. This is a long-term objective, given the nature of those imbalances and the already low level of per capita income, which effectively precludes drastic cuts in aggregate consumption. Fiscal policy has aimed at expanding the revenue base through tax reform and improvements in tax administration; revenue collections as a percentage of GDP were raised from 18.7 percent of GDP in 1987 to 20 percent in 1993. At the same time recurrent expenditures have been contained through cuts in enterprise subsidies, while investment has been largely financed by external grants. In 1994, however, fiscal imbalances worsened significantly due to increased expenditures associated with the demobilization, elections, and democratization process (5.7 percent of GDP); declining customs revenues (2.4 percent of GDP); and a rapid increase in public investments (4.3 percent of GDP). As a result the deficit after grants widened from 5.1 percent of GDP (22.2 percent before grants) in 1993 to 8.2 percent (29.6 percent) in 1994.

Monetary policy has aimed at reducing inflation by absorbing excess liquidity and improving the efficiency of credit utilization, but the government has had little success in stabilizing the economy. Net domestic bank financing of the budget decreased from 16.5 percent of GDP in 1986 to 0.9 percent in 1993, and net repayments equivalent to 1.4 percent of GDP were made in 1994. However, failure to control credit expansion through credit ceilings on commercial banks has led to rapid monetary expansion. Consequently, annual inflation remained at 45 percent over 1991-93 and accelerated to 71 percent in 1994. An important source of macroeconomic instability that contributes to continued high inflation, is leakage in the banking sector: "other items net" (mainly representing transitory accounts within the banking system) are large and have been growing rapidly. Inadequate control of these accounts has resulted in a rapid expansion of the banking sector's assets — and consequently of money supply. Hence, strengthening the central bank, developing appropriate monetary instruments, and establishing a properly functioning financial sector are seen as critical to addressing the underlying causes of macroeconomic instability.

The reduction in external imbalances has been constrained by the key role assigned to imports under Mozambique's 1987 Economic and Social Rehabilitation Program. Increasing the supply of capital and consumer goods, largely financed by donor grants and concessional loans, has been essential to rehabilitate infrastructure and provide the incentive goods necessary to complement reforms financial incentives. Given the low base of exports of goods and services, the current account deficit before grants averaged 55 percent of GDP over 1990-94. Because of strong donor support, the current deficit after grants fell from 29 percent of GDP in 1987 to 21 percent of GDP in 1994.

One major achievement of the Economic and Social Rehabilitation Program has been to restore economic growth. GDP growth averaged nearly 10 percent over 1987-89 despite the security situation. Growth slowed in the next two years to an average of 1.7 percent as the 1992 drought reduced GDP by 2.4 percent, security deteriorated, and external aid fell. With improved security, better weather, partially restored infrastructure, and continued structural reform, GDP growth accelerated to 19.3 percent in 1993 and to 5.4 percent in 1994. Growth was led primarily by the recovery in agricultural production, which increased by 21 percent and 5 percent, respectively, reflecting the end of the 1992 drought and the massive resettlement of family farmers in rural areas. Transport and construction also fared well as road and rail links were rehabilitated and private construction resumed. However, manufacturing production continued to decline for the fifth consecutive year due to widespread competition from smuggled imports, inadequate provisions for exporters, and delays in privatizing large industrial firms.

Poverty and Social Indicators

Although data are scarce, social indicators for Mozambique continue to show high rates of mortality and low levels of life expectancy. Life expectancy in Mozambique is only 47 years. The under-five mortality rate in Mozambique is 283 per 1,000, well above the regional average of 179 per 1,000; the maternal mortality rate is 1,100 per 100,000 live births relative to a regional average of 690. Many children are born underweight due to maternal malnourishment and about 30 percent of all urban children are stunted. Compared to average adult literacy of 45 percent among the United Nations-designated least developed countries, only 33 percent of adults in Mozambique are literate. The government increased budgetary allocations for health and education by 19 percent in real terms from 1991 to 1993. Although

expenditures in the social sectors fell in 1994, due the need to finance extraordinary items related to the democratization process, the budget for 1995 once again targets real increases in social sector spending.

A large proportion of Mozambique's population is poor. About 60 percent of all rural households and 30 percent of urban households fall below a poverty line defined in terms of a minimum food consumption basket. Minimum wages for urban unskilled workers have fallen in real terms. Under the government's poverty alleviation strategy 70,000 poor urban households are covered by a direct income transfer scheme. Ultimately, however, a resumption of growth will be necessary to reduce both urban and rural poverty.

Medium-Term Prospects

Mozambique's long-term objective under its Economic and Social Rehabilitation Program is to repair the damage of the past and establish conditions for sustained economic growth and poverty reduction. Key elements of the government's national reconstruction strategy include drastically reducing domestic inflation from 71 percent in 1994 to 24 percent in 1995, rationalizing and prioritizing public expenditures by adopting sectoral investment programs and shifting budgetary allocations from military to social sectors, reforming customs and introducing a VAT system, and accelerating privatization of major loss-making parastatals and the restructuring the commercial state-owned banks.

The macroeconomic program for 1995-97 envisages a substantial reduction in domestic and internal imbalances. Key elements of the program include reducing the fiscal deficit after grants from 8.2 percent of GDP in 1994 to 3.7 percent of GDP in 1995 — and the fiscal deficit before grants from 29.6 percent to 21.3 percent. The government aims to increase budgetary net repayments to the banking system to ensure adequate levels of credit for the private sector, and strengthen credit policies to keep monetary growth within targets, and reduce the current account deficit before grants by containing imports and establishing an appropriate incentive framework for exports.

Mozambique's overriding challenge in the external sector is to achieve financial viability and reduce dependence on external aid. This will entail maintaining the level of imports required for growth, rapidly expanding exports, and reducing its high external indebtedness. While remaining high relative to exports, imports are projected to decline in 1995 and grow slowly thereafter. This will reflect the end of demobilization, elections and other special programs in place last year, reduced dependency on food aid, and a gradual recovery of import substitution industry. However, most available external aid is absorbed by debt-service payments and donor-financed investment projects, leaving a relatively small margin of funds to finance needed imported inputs — such as petroleum — basic consumer goods, and capital goods not financed under investment projects. The share of import support funds over total external financing decreased visibly in 1994, while that of project financing increased. Since funds deriving from exports will be limited in the medium term, it is essential that adequate levels of import support funds be made available to finance private-sector foreign exchange needs.

Over the long term Mozambique's dependence on external aid should decrease. Exports are projected to rise by over 14 percent a year in current dollars from 1995 to 2002. This increase is expected to stem from restored traditional commodity exports such as cashews, sugar, and tea as state firms and transport services are privatized, expanding nontraditional manufacturing exports with the gradual improvement in the incentive framework, and the development of new gas fields, electricity, and mining resources. Foreign investment is expected to become the driving force behind the projected rise in exports: authorized investments reached $870 million by September 1994. Overall, the current account deficit before grants is projected to fall from 59 percent in 1994 to below 30 percent by the year 2000, and Mozambique's dependence on external aid could fall from $67 per capita in 1993 to the regional average of $34 in per capita terms in 1990 prices by 2002.

External Debt

Despite rapid export growth and import substitution envisaged under this favorable scenario Mozambique will need continued debt rescheduling through the 1990s. Current debt relief is generous, but even after rescheduling, debt service amounts to 25 to 30 percent of exports. For debt rescheduling to be a long-term solution, a 60 to 70 percent reduction in bilateral debt would have to take place. Debt cancellation agreements have been reached with several of Mozambique's bilateral creditors.

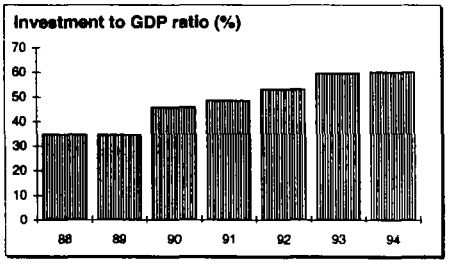
Mozambique

Population mid-1993 *(millions)* **15.1**
GNP per capita 1993 *(US$)* **90**

Income group: **Low**
Indebtedness level: **Severely Indebted**

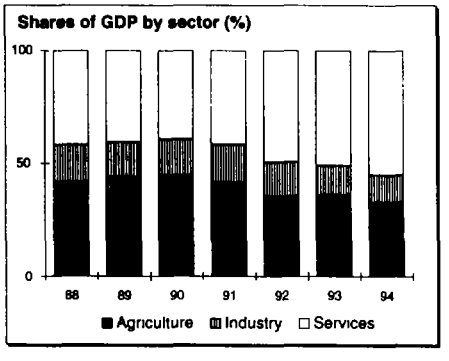
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	9.1	45.9	53.2	59.7	60.2
Exports of goods and nfs/GDP	5.6	15.9	23.6	21.3	23.2
Gross domestic savings/GDP	-4.1	-3.9	1.4	7.2	4.7
Gross national savings/GDP	-8.0	-7.7	-5.8	4.0	..
Current account balance/GDP	-17.2	-53.1	-57.5	-56.2	-59.3
Interest payments/GDP	0.7	0.8	1.3	2.8	3.2
Total debt/GDP	105.5	330.5	403.5	358.7	351.9
Total debt/exports	1,472.8	1,594.9	1,432.9	1,416.4	1,514.1



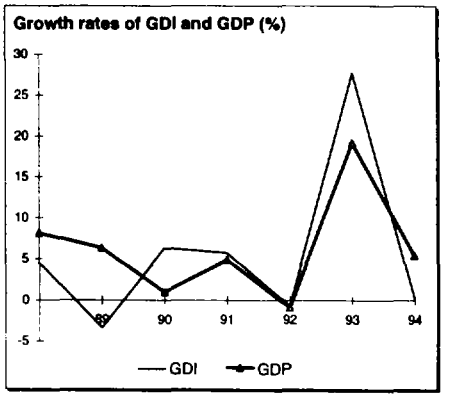
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	49.1	44.5	35.2	36.0	32.8
Industry	10.8	16.4	15.4	13.1	12.3
Manufacturing	..	..	..	..	..
Services	40.1	39.1	49.3	50.9	54.9
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	4.2	2.4	-11.3	21.3	5.0
Industry	9.1	-2.4	-5.1	-6.7	-3.3
Manufacturing	..	..	..	..	..
Services	-0.6	15.0	9.0	22.8	11.9
GDP	6.5	7.3	-0.9	19.2	5.4



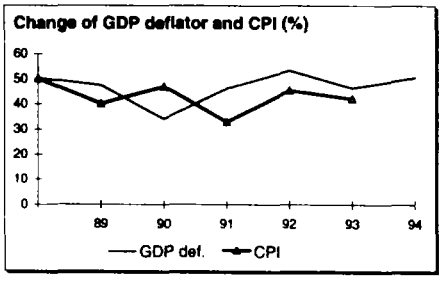
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	83.1	83.7	79.5	76.0	75.3
General government consumption	21.0	20.2	19.1	16.7	20.0
Gross domestic investment	9.1	45.9	53.2	59.7	60.2
Exports of goods and nfs	5.6	15.9	23.6	21.3	23.2
Imports of goods and nfs	18.8	65.7	75.5	73.8	78.7
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	7.3	3.0	-6.5	18.2	-0.5
General government consumption	4.6	9.8	8.9	5.8	28.9
Gross domestic investment	3.4	8.6	-0.7	27.7	0.1
Exports of goods and nfs	6.5	7.2	-1.2	3.4	7.3
Imports of goods and nfs	5.4	1.8	-5.9	8.5	4.1
Gross national product	7.0	7.9	-2.3	21.8	6.0
Gross national income	6.2	7.6	-3.0	22.0	5.8



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	..	47.0	45.5	42.2	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	33.3	34.1	53.4	46.6	50.8
Government finance					
(% of GDP)					
Current budget balance	-12.5	-3.3	-3.1	-1.4	..
Overall surplus/deficit	-18.5	-29.2	-28.6	-22.2	..

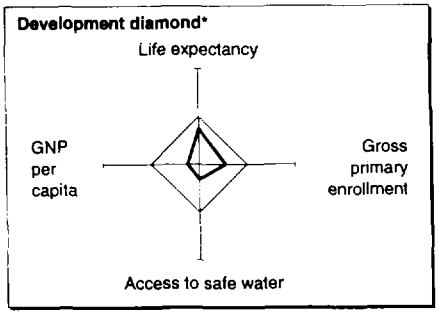


Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

POVERTY and SOCIAL

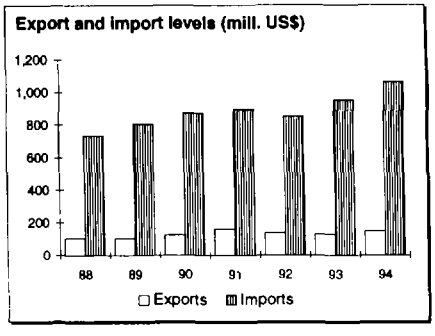
	1985-90	1990-94
(annual growth rates)		
Population	0.9	*2.1*
Labor force	1.9	2.0

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	46.5
Infant mortality *(per 1,000 live births)*	145.6
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	21.6
Energy consumption per capita *(kg oil equivalent)*	43.4
Illiteracy *(% of population age 15+)*	67.1
Gross primary enrollment *(% of school-age population)*	60.0



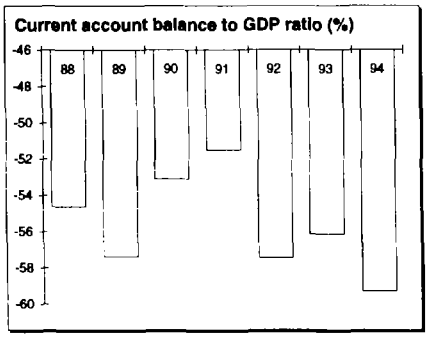
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	77	126	139	132	150
Groundnuts	12	15	18	8	3
Fish	33	43	55	69	63
Manufactures	..	..	..	..	..
Total imports (cif)	424	877	855	955	1,064
Food	121	155	199	172	248
Fuel and energy	75	95	78	81	..
Capital goods	49	252	261	309	325
Export price index *(1987=100)*	92	131	160	159	..
Import price index *(1987=100)*	72	122	118	131	..
Terms of trade *(1987=100)*	128	108	135	121	..
Openness of economy *(trade/GDP,%)*	24	82	99	95	102



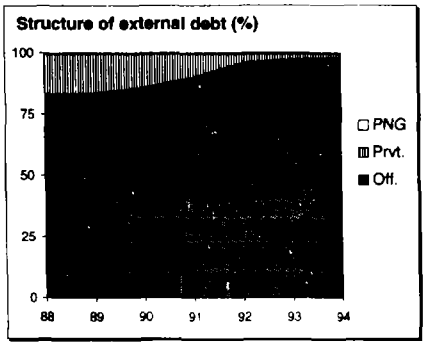
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	143	229	304	312	341
Imports of goods and nfs	481	948	970	1,083	1,155
Resource balance	-339	-719	-666	-771	-814
Net factor income	-117	-190	-214	-238	-248
Net current transfers	16	143	141	185	192
Current account balance					
Before official transfers	-440	-767	-739	-824	-870
After official transfers	-301	-318	-239	-321	-306
Long-term capital inflow	-50	-83	-155	-107	-22
Total other items (net)	330	408	434	382	385
Changes in net reserves	21	-6	-40	46	-57
Memo:					
Reserves excluding gold *(mill. US$)*	41	207	..	..	..
Reserves including gold *(mill. US$)*	41	207	..	..	..
Conversion rate *(local/US$)*	43.2	929.1	2,432.7	3,722.7	5,918.1



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	1,388.0	1,400.6	1,252.0	1,256.1	1,454.8
IMF credit/exports	0.0	24.7	48.2	51.0	54.3
Short-term debt/exports	84.8	169.5	132.7	109.4	5.0
Total debt service/exports	23.0	18.9	13.8	20.6	30.5
GDP ratios					
Long-term debt/GDP	99.5	290.3	352.6	318.1	338.1
IMF credit/GDP	0.0	5.1	13.6	12.9	12.6
Short-term debt/GDP	6.1	35.1	37.4	27.7	1.2
Long-term debt ratios					
Private nonguaranteed/long-term	0.4	0.5	0.4	0.4	0.3
Public and publicly guaranteed					
Private creditors/long-term	27.3	13.9	3.8	2.3	1.9
Official creditors/long-term	72.2	85.6	95.9	97.3	97.9



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete

Niger

Niger is a large landlocked country of 1.27 million square kilometers 600 kilometers from the closest ocean. Its population is estimated at 8.7 million — about half of which is less than 15 years old — in 1994, growing at about 3.3 percent a year, which is above average for Sub-Saharan Africa. Nearly 90 percent of its population is concentrated in the 12 percent of its land area considered arable. Rainfall is limited and often irregular, while soil fertility is low and declining, due to intensive use. As a result, Niger's fast-growing population is becoming one of the poorest in the world. Per capita GNP declined by a yearly average of 4.5 percent since 1980 to reach $270 in 1993. The country's social indicators are among the lowest in the Sahelian countries. Life expectancy at birth of 45 years is one of the lowest on the continent. Infant and child mortality rates are high. The adult literacy rate is only 14 percent (9 percent among women), and the primary school enrollment ratio is less than 30 percent.

Subsistence agriculture has traditionally dominated the economy, with millet and sorghum taking up 80 percent of the cultivated area. Livestock also provides an important source of income and export receipts. Except during the Sahelian drought periods, Niger has been self-sufficient in staple food production. The discovery of large uranium deposits in the late 1960s triggered development of an important mining sector, which expanded rapidly under highly favorable conditions in the world market during the late 1970s. Uranium became Niger's principal foreign exchange earner, amounting to 70 percent of exports and a major source of government revenues (around 12 percent). As a result, Niger went through a period of rapid growth with the public sector taking a dominant role in the modern economy. The uranium boom ended in 1981 when prices plummeted and Niger's market share decreased. The formal sector now accounts for around 27 percent of GDP (of which 7 percent is mining) and comprises a relatively inefficient public sector and a small modern private sector in rapid decline until recently, owing to the lack of competitiveness of the Nigerien economy, and "fraudulent" imports from Nigeria. Niger has an open economy, with imports and exports of goods and nonfinancial services exceeding 30 percent of GDP. There are strong trade links with Nigeria, which exerts considerable economic influence through long-standing trading and cultural bonds. This influence heightened during the 1980s as Nigeria's competitive position was bolstered by steady depreciation of the naira.

Niger exhibited the features of a typical resource-poor Sahelian country until the uranium boom raised the mining sector's share of GDP from 6 percent in 1975 to 13 percent in 1980. The collapse of the uranium boom revealed serious structural deficiencies engendered by the public sector's excessive involvement in production and resource allocation. The deflationary strategy Niger adopted to address these problems ran into serious difficulty during a protracted political transition. Revenues declined, due in part to the increased informalization of the economy and weak tax administration, and expenditures, mostly public sector wages, proved hard to curtail. Public investment focused on infrastructure and construction projects, while agricultural investment encountered serious problems. Recurrent expenditure favored personnel and transfer payments over operations and maintenance, to the detriment of infrastructure and basic public services. The recent deepening of the adjustment strategy to include the January 1994 devaluation of the CFA franc opens up new avenues to solve the current crisis.

Structural Adjustment

Adjustment efforts in Niger began in 1983, and were supported by IDA and the IMF, bilateral donors, and continuous Paris Club and London Club debt rescheduling until major slippages occurred in 1990. In 1991 the government began an internal adjustment package that had very limited results. In September 1993 internal adjustment efforts were expanded to include a 24 percent cut in public-sector base salaries, subsequently lowered to 13 percent under union pressure. Donor support for adjustment restarted after the CFA franc devaluation, but subsided late 1994, given weak progress, timid structural reforms, and a stabilization program that went off track with declining government revenues (especially customs) and a ballooning wage bill.

Structural reform has been a special challenge in the face of resistance, particularly from students and labor unions. Reform has focused on areas where policy changes can have the greatest impact on the budgetary and balance of payments positions: public resource management, including public investment programming; civil service, parastatal, and trade reform; macroeconomic management, and improving improved supply response through an agricultural policy, labor market reform, private sector development, and expanded delivery of education and health services.

Progress in structural adjustment has been mixed. The January 1994 devaluation was expected to result in a reallocation of resources to the tradables sector through the provision of price incentives. This has happened in the liberalized sectors yielding expanded outputs and exports in livestock, cowpeas, and rice. However, in other sectors, the shift of resources to more productive uses needs to be strengthened by accompanying structural reforms.

The public sector continues to dominate economic and social infrastructure, and a rolling three-year investment program has been put in place that emphasizes the directly productive sectors, development of human resources, and infrastructure rehabilitation. Public investment, which slowed with the accumulation of external arrears and the lack of counterpart funds, improved in 1994 with the resumption of aid inflows after devaluation. From 9.2 percent of GDP in 1991, domestic investment fell to 5.7 percent in 1993, and then improved to 9.8 percent in 1994.

Civil service reform is lagging and recruitment is largely uncontrolled. The government's attempts to control the wage bill through salaries while tolerating overstaffing of the civil service and parastatals has proven ineffective. The parastatal reform program included measures to encourage private investment and restructure the banking system, but progress has been weak.

The government has reformulated its rural development strategy to improve the efficiency of its interventions in this sector and limit their budgetary impact. The sectoral investment program has been largely reoriented to emphasize quick-yielding small-scale projects, farmer participation, and infrastructure rehabilitation. The operations of the cereals marketing and storage agency have been limited to managing a security stock, and its price stabilization role eliminated. Subsidies on agricultural inputs are being curtailed to expand their availability and limit the budgetary drain. Price and market liberalization and good rainfall have helped raise agricultural output in 1995.

Expected private-sector development and labor market reforms have not materialized, but progress was achieved on structural reforms in education and health under the government's 1994-2000 Health Plan. Trade liberalization efforts have been pursued with the elimination of export taxes, and of licensing on cotton exports, and imports of rice, cigarettes, and edible oil.

Since the National Conference in November 1991, political and social agendas transfixed Nigerians and crowded out concerns about adjustment and other economic issues. Recently a political crisis developed into protracted social unrest and labor militancy. Following the January 12, 1995, legislative elections, a new government has been installed. Time will tell whether the new political platform drawn from the elections could support a more stable future government.

Recent Economic Developments

Despite lags in its adjustment program, policy changes since the CFA franc devaluation have yielded some positive results in Niger. General economic activity has improved with a 4 percent real GDP growth in 1994, compared to 1.4 percent in 1993, as a result of a good rainy season that boosted agricultural production, increased land use and crop yields, and increased liberalization in pricing and trade. Inflationary pressures remain, however, structural reform and stabilization have been weak, and there has been protracted social and political turmoil. The benefits of the devaluation accrued mainly because of price pass-throughs in agriculture. Production and exports of major commodities (cowpeas, livestock, hides and skins) increased, and import substitution took place for rice, cement, and construction items. Efforts to jump-start the business cycle by liquidating government arrears to enterprises and restrained fiscal and monetary policies, met with modest results largely due to lack of government action. Structural reforms to increase supply response were effective in agriculture and trade, but were delayed for privatization and public enterprise reform, and labor policy.

Gross domestic investment improved from 5.7 percent in 1993 to 9.8 percent in 1994. However, less than adequate progress in reducing external arrears and lack of counterpart funds have resulted in lackluster public investment performance (4.8 percent versus 4.2 percent in 1993). Persistent public finance imbalances are a root cause of Niger's crisis. Tax revenues declined in 1994 by 32 percent below program targets despite numerous discretionary tax changes, and budgetary expenditures remained high despite attempted containment. The revenue shortfall reflects mainly poor customs revenue mobilization. The wage bill is projected to reach 98.7 percent of the 1994 tax revenues.

The government enacted a tariff reform eliminating nontariff barriers on rice, cotton fiber, cigarettes, and edible oil, eliminating export taxation and de-

creasing tariffs. External trade responded well to these changes, albeit slowly. Export volume increased overall by 0.5 percent, and import volume fell 5.9 percent, but sizable price effects (78.5 percent for exports and 106.9 percent for imports) yielded a 13.7 percent deterioration in Niger's terms of trade, which translated into a further deterioration of external current account balance to -7.5 percent of GDP as against -0.9 percent of 1993.

With price decontrol, and after the initial three months of devaluation, inflation accelerated quickly to a cumulative rate of 41.9 percent in August, but positive developments in agricultural production tempered inflation, which fell to 40.6 percent in December 1994.

Development Issues

Niger faces many constraints to its long-term development. It has a slim natural resource base of fragile and degrading arable land, low rainfall, and periodic drought; a very weak human resource base; high factor and input costs; and overdependence on a single export — uranium. Its earlier interventionist economic policies and significant anti-export bias impeded broad-based development. Since 1981 plummeting uranium prices prompted chronic fiscal imbalances, and inadequate revenue generation and an uncontrolled wage bill have saddled Niger with mounting budget and payment deficits and rapidly rising debt service.

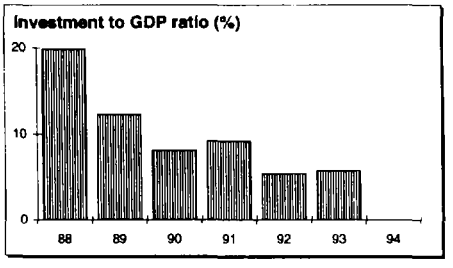
Niger

Population mid-1993 *(millions)* **8.6**
GNP per capita 1993 *(US$)* **270**

Income group: **Low**
Indebtedness level: **Severely indebted**

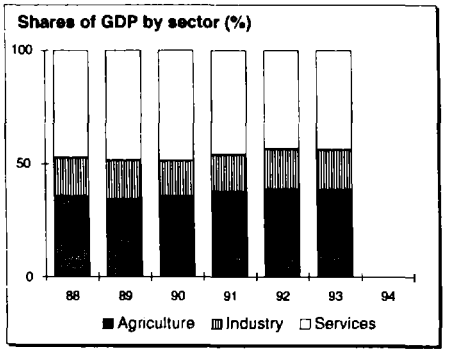
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	15.3	8.1	5.4	5.7	..
Exports of goods and nfs/GDP	21.0	17.0	14.2	12.8	..
Gross domestic savings/GDP	6.1	4.0	1.8	1.3	..
Gross national savings/GDP	-1.0	-0.2	-1.2	-1.7	..
Current account balance/GDP	-19.2	-11.8	-7.4	-7.3	-14.9
Interest payments/GDP	2.9	0.9	0.6	1.0	1.2
Total debt/GDP	83.9	73.4	70.5	76.8	112.5
Total debt/exports	379.3	471.0	499.7	574.3	681.4



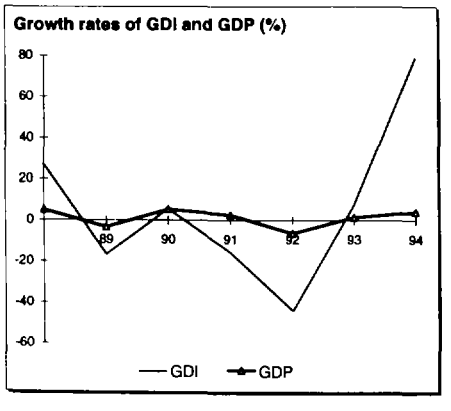
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	36.7	35.3	38.8	38.5	..
Industry	20.9	16.2	17.9	17.9	..
Manufacturing	7.1	6.6	6.5	6.5	..
Services	42.3	48.6	43.4	43.6	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	..	..	-7.4	0.7	..
Industry	..	..	-5.0	2.5	..
Manufacturing	..	..	..	..	..
Services	..	..	-6.0	1.8	..
GDP	1.5	-0.3	-6.5	1.4	3.9



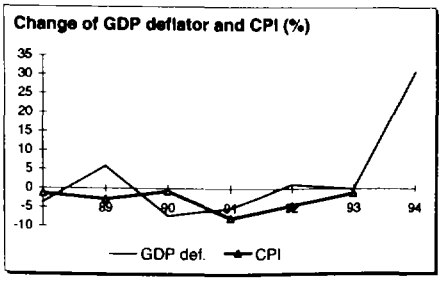
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	78.8	81.0	81.2	82.1	..
General government consumption	15.0	15.0	17.1	16.6	..
Gross domestic investment	15.3	8.1	5.4	5.7	..
Exports of goods and nfs	21.0	17.0	14.2	12.8	..
Imports of goods and nfs	30.1	21.1	17.8	17.3	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	-0.7	0.5	-1.8	1.6	1.4
General government consumption	2.2	1.9	11.1	-1.3	-8.9
Gross domestic investment	-0.6	-6.9	-44.1	7.3	78.6
Exports of goods and nfs	-0.3	-6.7	-19.0	-3.1	-4.2
Imports of goods and nfs	-7.9	-5.4	-6.8	-3.8	-3.5
Gross national product	1.8	-0.4	-6.5	1.4	3.8
Gross national income	0.9	*-1.6*	-5.6	0.7	..



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	-0.9	-0.8	-4.5	-1.2	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	-1.9	-7.3	1.1	-0.1	30.9
Government finance					
(% of GDP)					
Current budget balance	..	-3.1	-5.4	-6.2	-7.1
Overall surplus/deficit	..	..	-9.6	-10.1	-11.2



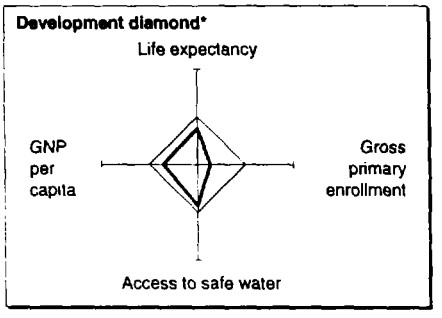
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Niger

POVERTY and SOCIAL

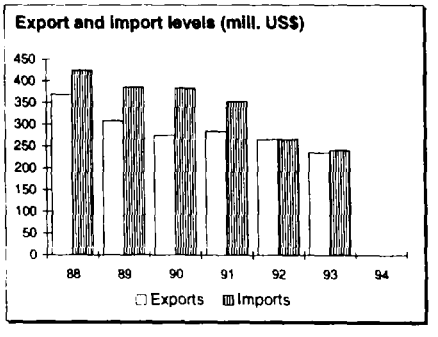
	1985-90	1990-94
(annual growth rates)		
Population	3.1	3.4
Labor force	2.4	2.6

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	46.9
Infant mortality *(per 1,000 live births)*	122.0
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	59.4
Energy consumption per capita *(kg oil equivalent)*	37.9
Illiteracy *(% of population age 15+)*	71.6
Gross primary enrollment *(% of school-age population)*	29.0



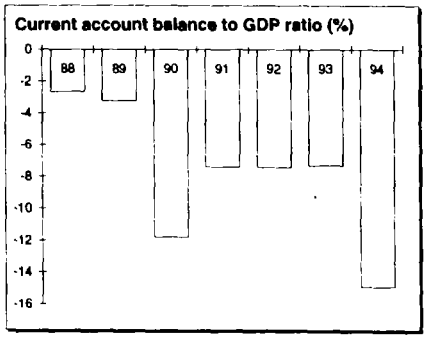
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	251	275	265	236	..
Other metals	214	222	190	160	..
n.a.	..	..	..	..	..
Manufactures	..	..	..	..	..
Total imports (cif)	354	384	266	241	..
Food	91	34	28	28	..
Fuel and energy	28	23	28	25	..
Capital goods	..	..	109	88	..
Export price index *(1987=100)*	92	94	96	69	..
Import price index *(1987=100)*	..	94	56	149	..
Terms of trade *(1987=100)*	..	100	172	46	..
Openness of economy *(trade/GDP,%)*	51	38	32	30	..



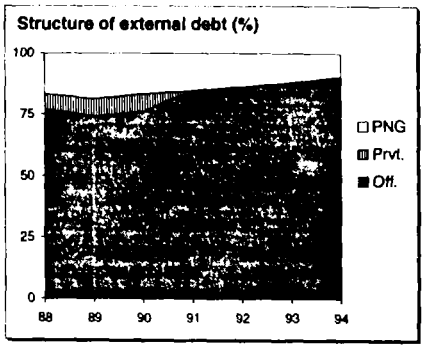
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	298	372	315	282	245
Imports of goods and nfs	473	559	415	378	351
Resource balance	-175	-187	-100	-96	-106
Net factor income	-42	-58	-34	-32	0
Net current transfers	-59	-49	-40	-34	..
Current account balance					
Before official transfers	-276	-293	-174	-163	-230
After official transfers	-64	-109	-37	-19	-129
Long-term capital inflow	49	22	58	-41	57
Total other items (net)	18	109	-8	51	..
Changes in net reserves	-3	-22	-13	9	-8
Memo:					
Reserves excluding gold *(mill. US$)*	136	222	225	192	..
Reserves including gold *(mill. US$)*	140	226	229	196	..
Conversion rate *(local/US$)*	449.3	272.3	264.7	283.2	555.2



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	323.7	409.2	452.3	517.1	645.9
IMF credit/exports	24.6	22.0	18.5	17.5	23.2
Short-term debt/exports	31.1	39.8	28.8	39.7	12.2
Total debt service/exports	33.8	25.3	15.8	31.4	30.7
GDP ratios					
Long-term debt/GDP	71.6	63.7	63.8	69.1	106.6
IMF credit/GDP	5.4	3.4	2.6	2.3	3.8
Short-term debt/GDP	6.9	6.2	4.1	5.3	2.0
Long-term debt ratios					
Private nonguaranteed/long-term	19.3	16.5	13.7	11.8	9.6
Public and publicly guaranteed					
Private creditors/long-term	16.5	7.3	0.1	0.1	0.1
Official creditors/long-term	64.3	76.2	86.2	88.1	90.4



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Nigeria

Nigeria is the largest country in Sub-Saharan Africa, with some 20 percent of the region's population. Its wealth of natural and human resources — including major oil and gas deposits, a vibrant private sector, and a large labor force — endow it with considerable potential for growth and development. When Nigeria became independent in 1960 it inherited institutions and processes that have evolved into robust professional associations, an inquisitive press, a cultural commitment to political and economic freedom, and a competent bench and bar. But it also inherited ethnic and regional tensions that reflected the colonial design of its borders and constituencies.

In recent years, Nigeria has undergone a series of attempts to replace military with civilian leadership. The transition timetable, first announced in 1986, was supposed to be completed by the end of 1992. A presidential election was held in June 1993, but the result was voided by the then-military government. An interim government headed by a civilian assumed power in August of that year, but survived only four months until November 1993, when it was replaced by the current military government. A constitutional conference is expected to submit, in the course of 1995, its recommendation for a new constitutional framework and a timetable for a return to civilian rule.

Petroleum production constitutes about 34 percent of Nigeria's GDP, over 97 percent of total exports, and 80 percent of budgetary revenues. Its vast reserves of natural gas are only beginning to be exploited. Agriculture employs two-thirds of the labor force and accounts for 36 percent of GDP. Ninety percent of agricultural output originates from food crop production, which is largely based on small-scale farming. Yams, cassava, and grains are the main food crops, and cocoa, palm oil, rubber, groundnuts, and cotton are the principal cash crops. Productivity is low but holds considerable scope for large gains through increased irrigation, improved technology, and intensified extension services. Manufacturing accounts for about 7 percent of GDP. The service sector, dominated by wholesale and retail trade, accounts for the remaining 23 percent of GDP.

The oil boom of the mid- to late 1970s financed massive increases in public investment. These were designed to raise the economy's productive capacity and human capital, and to heal the wounds of the civil war that ravaged Nigeria in the late 1960s. But many of the investments were undertaken without sufficient attention to their economic viability. In addition, shifts in the terms of trade, together with excessive government spending, undermined the nonoil export base in cocoa, groundnuts, and cotton, and raised the prices of nontradables. When oil revenues fell in the aftermath of the decrease in oil prices and rising international interest rates in the early 1980s, the government, instead of cutting its expenditures, increased borrowings abroad to sustain them. As a result, foreign debt accumulated and sizable arrears on trade payments emerged. In late 1983 a new military government introduced across-the-board budgetary cuts and administrative restrictions on imports and foreign exchange transactions. Although the government succeeded in reducing domestic and external imbalances, it failed to address the economy's structural weaknesses: low agricultural productivity, an uncompetitive manufacturing sector, significant trade distortions, and a cumbersome regulatory framework. Uneven implementation notwithstanding, the measures exacted a heavy economic toll and proved to be politically unsustainable.

Adjustment Efforts 1986-1993

The government that came to power in mid-1985 declared its intention to move from "austerity alone to austerity with structural adjustment." With a further collapse in oil prices adding urgency, in 1986 the government adopted a far-reaching structural adjustment program that combined exchange rate and trade policy reforms aimed at revitalizing the nonoil economy with stabilization policies designed to restore price stability and balance of payments equilibrium. The adjustment program emphasized downsizing the public sector and improving the efficiency of public asset management. Import licenses and the agricultural marketing boards were eliminated, price controls were lifted, and deregulation of

the banking system was initiated. The restructuring of domestic production and the liberalization of the incentive regime led to a resurgence of agriculture and manufacturing.

Although some reforms were sustained over 1986-93, others were implemented unevenly. All suffered from the vagaries of an increasingly erratic macro-economic environment. Successive cycles of contractionary and expansionary policies — with their attendant effects on prices and economic activity — rocked the economy. From late 1986 to end-1987, fiscal and monetary policies became reasonably tight. However, in response to political pressures, they turned expansionary in 1988, only to reverse themselves a year later when the inflationary consequences of this policy direction became painfully evident. Increased international oil prices associated with the 1990 Persian Gulf crisis fueled higher spending, which continued following their subsequent collapse. Mirroring earlier periods, Nigeria recorded large overall fiscal deficits, which by 1992 reached 10 percent of GDP. This trend continued in 1993, with the fiscal deficit increasing further to 17 percent of GDP. Driven by the need to finance a rising fiscal deficit, monetary policy became increasingly lax — the money supply increased by 33 percent in 1991, 55 percent in 1992, and 51 percent in 1993, and average inflation by 13 percent, 45 percent, and 57 percent, respectively.

Exchange rate reform was at the core of the structural adjustment program. Although the specific modalities and its implementation varied over the adjustment period, the reform facilitated a cumulative depreciation in the real effective exchange rate of about 80 percent between September 1986 and the end of 1992. The financing of the fiscal deficit through the Central Bank of Nigeria over 1991-93 led to rapid depreciation of the naira. With foreign exchange reserves nearly depleted in early 1993, the authorities switched back to a system of rationing of foreign exchange. By the end of the year, the premium on the free market had risen to 100 percent above the official exchange rate. Although initial trade reforms reduced the cascading of protection that had encouraged assembly type operations, some of the adjustment program's first-round tariff reductions — and the pruning of the import prohibition list — were later rolled back.

The government encouraged private sector activities by simplifying the regulatory environment, reducing limitations on foreign investment, cutting corporate tax rates, and introducing a debt-equity conversion program. Yet the private sector continues to face cumbersome regulations and approval processes that raise the cost of doing business. Ongoing difficulties with public utility management have made the provision of critical infrastructure services such as power and telecommunications erratic, hindering private sector activity. Even more critical, Nigeria's unstable macroeconomic policies and political uncertainty have increasingly discouraged investors.

Much-needed financial sector reforms began under the adjustment program but were frequently reversed. Although interest rates and spreads were deregulated, they were periodically subjected to moral suasion by the authorities to mitigate their rise. Credit ceilings have only recently been phased out, but sectoral allocation guidelines remain.

Until recently, there has been a proliferation of sectoral banks and other nonbank financial institutions that fall outside the purview of central bank supervision, regulation, and credit allocation guidelines. Financial-sector reforms included new legislation, which led to the adoption of Basle standards for new prudential guidelines, and to stricter supervision and provisioning requirements. Within the banking system, new entrants aiming to secure foreign exchange allocations from the central bank at preferential rates mushroomed, and serious financial distress emerged in established financial institutions, with classified loans accounting last year for over one-third of total bank credit. While the central bank and the National Deposit Insurance Corporation have taken limited actions toward a few small banks with nonperforming loans, their eventual disposition and financing to restructure banks in need remain unclear. The authorities have yet to adopt a comprehensive strategy for distress resolution. Meanwhile, the federal government has divested most of its equity participation in commercial and merchant banks.

The adjustment program also included public enterprise reform. Eighty-nine mostly small enterprises have been privatized — mostly through public offers and deferred public offers — on the Nigerian Stock Exchange, but the planned privatization of several large enterprises has been put on hold. The commercialization program, on the other hand, has failed. Eleven parastatals were slated for full commercialization, and in some cases, performance contracts (including ten-year corporate plans) have been signed, although virtually no progress has been made with the partial commercialization of the electric utility or the full commercialization of the oil and telecommunications companies. Institution-building efforts, increased autonomy, and the creation of appropriate regulatory frameworks have stalled, while service delivery has continued to deteriorate, raising operating costs for users.

Public expenditure management has deteriorated sharply since the mid-1980s. Increased off-budget spending and continued financing of nonviable investment projects have been the main causes of eroding fiscal discipline. For example, the temporary revenue windfall from the rise in international oil prices in 1990

led to the reemergence of large-scale government spending, financed through recourse to central bank credit and diversions of revenues outside the purview of the statutory, budgetary, and accounting framework. Spending in real terms on the social sectors had contracted sharply before the adjustment program, and these lower spending levels were maintained in per capita terms throughout the adjustment period.

Recent Economic Developments

In 1994 the new government, instead of tackling the causes of the mounting economic crisis in the expanding fiscal deficit, mismanagement of public resources, and half-hearted implementation of structural reforms, attempted to suppress its symptoms by centralizing all foreign exchange transactions, maintaining an increasingly overvalued official exchange rate, setting up committees to ration foreign exchange to the private sector, and capping interest rates significantly below prevailing inflation levels. In mid-1994 a major political challenge by the oil workers' union and prodemocracy movements led to a prolonged strike in the petroleum industry. Although the strike only affected crude oil exports marginally, it had a dramatic impact on domestic fuel supplies and commercial activities. In October the government effected a 300 percent increase in domestic fuel prices, which brought retail prices to about two-thirds of international levels (net of taxes). With external debt service payments unilaterally capped at $1.8 billion against due amounts of over $4.5 billion, debt service arrears on the external debt continued to mount and reached $9.6 billion at the end of 1994. Following the pattern of the previous three years, against a budget target of a small surplus, Nigeria ended the year with a budget deficit of 10 percent of GDP, mostly financed through recourse to central bank credit.

Rapidly worsening economic conditions in 1994 led to government reassessment of its policy direction. In January 1995, a new budget of "guided deregulation" with some significant policy corrections was introduced. Included among these were a renewed promise of a tight fiscal and monetary stance, a free market for foreign exchange for all except some government transactions, a more liberal environment for foreign investors, and the intention of turning over the management of some public enterprises to private operators. However, the new budget reaffirmed the continuation of interest rate ceilings, as well as of commercialization plans for key public enterprises, already tried unsuccessfully in the past. Moreover, it called for a suspension of the privatization program. Only modest progress has been achieved on improving transparency and accountability.

Despite difficulties in implementation and overspending, the policies incorporated in the structural adjustment program, particularly the abolition of price controls at the factory gate and of agricultural marketing boards, together with the large depreciation of the real effective exchange rate, produced results. In contrast to an average decline of 2 to 3 percent between 1980 and 1986, real GDP grew by about 5 percent a year between 1987 and 1992, primarily reflecting a recovery in agriculture and manufacturing. Some of Nigeria's earlier anti-export bias in manufacturing disappeared under the adjustment program, and producers switched from imported to local inputs. The assembly-based manufacturing sector, which depends on imported inputs and had been shielded from competition and market signals, contracted during the adjustment era. Following a shift in relative prices in favor of the rural sector, the production of traditional food crops and cash crops increased, and agricultural output expanded 4 percent a year on average: Nigeria now spends one-fifth of what it spent in 1986 on food imports.

However, overall economic growth has slowed down in recent years in response to the general worsening in macroeconomic policies, falling to 1.5 percent in 1993. In 1994 recorded nonoil merchandise exports fell by 44 percent and GDP growth stagnated. Per capita GDP and consumption are estimated to have fallen by about 2.6 percent in real terms in 1994 and by a cumulative 1.1 percent between 1991 and 1994.

Inflation has fluctuated widely since 1986, reflecting policy variations. In 1986, despite a 70 percent depreciation of the exchange rate, satisfactory monetary performance kept inflation at 16 percent. While inflation decelerated in 1987, the expansionary 1988 budget boosted prices by 55 percent. Inflation moderated once again, as tight fiscal and monetary policies were pursued in 1989, falling below 7 percent in 1990. Recent expansionary fiscal and monetary policies caused inflation to rebound. By end-1994, with the parallel market premium above 350 percent, end-of-year inflation is estimated to have reached close to triple-digit levels.

The benefits of growth were unevenly distributed at best, with a growing share of public resources being channeled off-budget to special interest groups. The overall incidence of poverty declined in the growth interval between the mid-1980s and the early 1990s, but there is also strong evidence of a worsening of income distribution and the situation of the poorest of the poor. Although the adjustment program revived economic growth, this was not able to compensate for the huge drop in purchasing power associated with the collapse of international oil prices. With GDP growing at 5 percent a year and population at 3 percent, per capita income grew at 2 percent over 1987-92. Continuing that growth rate would take about 30 years for Nigeria to recover its peak living standard achieved in 1981. In real per capita terms, consumption and income are now little

higher than they were in the early 1970s, before the oil boom. The urban middle class, primarily civil servants and workers in import-substituting industries, has continued to bear the cost of adjustment.

Poverty and Social Indicators

Economic mismanagement and negative external shocks contributed to reducing GNP per capita from $1,160 in 1980 at the peak of the oil boom to $300 in 1993. As a result, the incidence of poverty increased significantly. One-third of Nigeria's population is considered poor, with about 10 percent, some 10 million people, classified as extremely poor. In real per capita terms, consumption and income are now no higher than they were in the early 1970s. Basic social indicators place Nigeria among the 20 poorest countries worldwide. Infant mortality rates are around 85 per 1,000 live births, half of all children aged 2 to 5 show signs of persistent malnutrition, and only about two-thirds of the relevant age group are enrolled in primary schools — down from 90 percent in the early 1980s.

Nigeria has recently adopted comprehensive and farsighted education, health, and population policies that give preference to the promotion of health and education services at the primary over the tertiary level, provide access to universal primary education free of charge, encourage cost recovery measures in health care, and aim to improve the health of women and children through birth spacing. However, without a commensurate improvement in management of an increase in and a reallocation of budgetary provisions, notably for salary levels, supplies, and maintenance over capital expenditures, prospects for reversing the decline in enrollments, quality of services, and utilization rates remain poor.

Nigeria's public sector lacks transparency and accountability. Pervasive mismanagement robs the economy of resources that otherwise might be used for growth and poverty reduction, adds to the cost of doing business, and undermines confidence in the public sector. Deficiencies in governance manifest themselves in a number of ways. First, oil revenues typically cannot be fully accounted for. The failure to establish full control over the government's statutory oil revenues and lack of accountability for nonstatutory oil revenues have obstructed proper fiscal management. Second, successive governments have lacked political will in halting unauthorized extrabudgetary spending for nonproductive programs. Third, the public investment program is too large, biased toward large capital-intensive projects, and plagued by high costs due to rent seeking. Fourth, the quality of public service delivery, particularly utility and infrastructure services, is deteriorating, undermining Nigeria's international competitiveness.

While some women play a dynamic role in political and economic life in parts of the country, women generally tend to be seriously disadvantaged, particularly in rural areas. Legal, cultural, and social barriers limit their access to land, credit, farming inputs, technology, and support services and constrain their earning capacity. They spend long hours on low-output, physically demanding activities such as water and fuelwood transport, manual crop processing, and headloading of farm produce, in addition to their responsibilities for household and family maintenance tasks. They are more likely than men to be illiterate and poorly nourished, and women face extreme health risks because of frequent pregnancies starting at a young age.

Environment

As in much of Sub-Saharan Africa, Nigeria's key environmental problems are soil degradation, water contamination, and deforestation. Many of the problems are directly related to rapid population growth, which has reduced the natural resource base. Traditional bush-fallow farming systems are land-intensive but sustainable and compatible with the environment as long as population remains in check. But with the rising population, farmers cultivate exhausted soils, and their incomes decline. Worsening poverty engenders demand for more children to help families survive on the land, which in turn increases the pressure on the environment in a vicious circle. Moreover, Nigeria is the world's largest flarer of natural gas.

The government has taken some initial steps toward redressing Nigeria's environmental problems. A national environmental policy has been formulated, and state-level agencies have been set up to coordinate environmental activities. Legislation has been enacted regulating effluent limitation and industrial wastes and requiring environmental impact assessments, but enforcement remains weak. The government is also incorporating environmental concerns in its sectoral policies and projects in forestry, water and sanitation, gas flaring reduction, population and health, industrial and hazardous waste management, and coastal zone management.

External Environment

The pressure on Nigeria's external balance has been exacerbated by the downturn in world oil prices of recent years. Meanwhile, the competitiveness of nonoil exports was dealt a severe blow in 1994 by rapidly increasing inflation, the impact of the CFA franc devaluation, and the abolition of the legal autonomous foreign exchange market and the fixing of the official exchange rate at an overvalued level. While in the 1995 budget nonoil exporters are once again allowed to retain legally

their foreign exchange earnings and obtain a market rate when selling them, it is unlikely that recorded exports will show a rapid recovery, as exporters' confidence will take time to be restored.

The Nigerian economy is highly exposed to world oil price fluctuations. For each $1 per barrel change in oil prices, total foreign exchange revenues change by 6 percent. While the market outlook is for oil prices to be slightly higher in real terms in 1995 than in 1994, and to rise gradually over the medium term, Nigeria's efforts to increase its productive capacity to 2.5 million barrels a day by the middle of the decade appear unlikely: favorable new terms have been negotiated with joint venture companies, but arrears on cash calls, estimated to be above $1 billion at the beginning of 1995, will continue to restrict new investment. The government's efforts to diversify energy exports, notably through a liquefied natural gas project, remain under active discussion with potential foreign investors.

Medium-Term Prospects

Assuming a continuation of recent policies, Nigeria's medium-term prospects remain bleak. While in the short term, a small rebound in economic activity might occur following the liberalization of the autonomous foreign exchange market, growth in key sectors, especially manufacturing, services, and oil, is likely to stagnate. The adoption of an appropriate policy mix aimed at stabilization and sustainable growth would impact positively on economic efficiency and bring about a more rapid and sustained supply response.

Nigeria faces interrelated development challenges of establishing viable and stable macroeconomic framework policies and streamlining its incentive regime, reducing poverty through policies that promote efficient growth and that target public expenditures on basic social services, and downsizing its public sector and improving governance. Economic management, which has progressively deteriorated since 1990, has been responsible for the slowdown in growth. As fiscal and balance of payments deficits have increased, inflation has accelerated. Trade distortions have reemerged. Interest rates are now set administratively and are far below market-clearing levels. The foreign exchange regime for government transactions is open to abuse.

External Debt

Nigeria has run a large trade surplus since 1986 but — with the exception of 1990 — a current account deficit, reflecting its large interest due and other services. Nigeria's net transfer position on official external debt was persistently negative, averaging 4.6 percent of GDP a year between 1986 and 1994. The stock of public and publicly guaranteed external debt increased from $19.5 billion at end-1985 to around $30.5 billion (including $9.6 billion of arrears on both principal and interest) by end-1994. This 50 percent increase occurred mostly between 1985 and 1987, and was principally due to cross-currency revaluations, which boosted the value nondollar-denominated debt, and the reconciliation and recognition as public debt of a large stock of trade arrears from the 1982-83 period. Nigeria has concluded three rescheduling agreements with the Paris Club since 1986, but substantial new arrears accumulated after the expiration of the third agreement at end-March 1992. Nigeria's total debt service burden, two-thirds of which is due to official creditors, is projected to remain above 31 percent of projected exports during 1995/96.

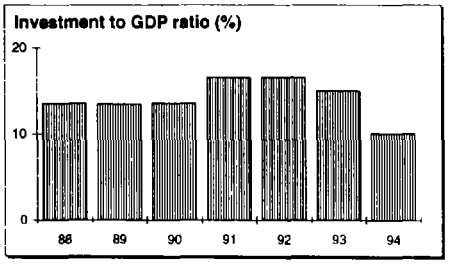
Nigeria

Population mid-1993 *(millions)* **105.3**
GNP per capita 1993 *(US$)* **300**

Income group: **Low**
Indebtedness level: **Severely Indebted**

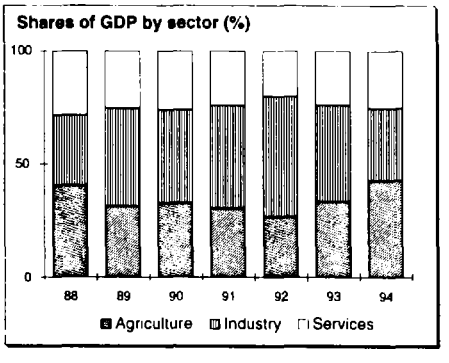
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	9.0	13.6	16.6	15.1	10.1
Exports of goods and nfs/GDP	16.1	43.5	39.1	36.1	21.9
Gross domestic savings/GDP	12.6	28.3	21.2	18.5	11.0
Gross national savings/GDP	8.7	18.4	14.7	11.2	4.4
Current account balance/GDP	-0.3	4.7	-2.0	-3.3	-5.3
Interest payments/GDP	1.6	5.7	5.6	4.5	4.0
Total debt/GDP	24.1	106.5	104.3	114.3	86.8
Total debt/exports	148.6	241.6	247.3	284.2	312.1



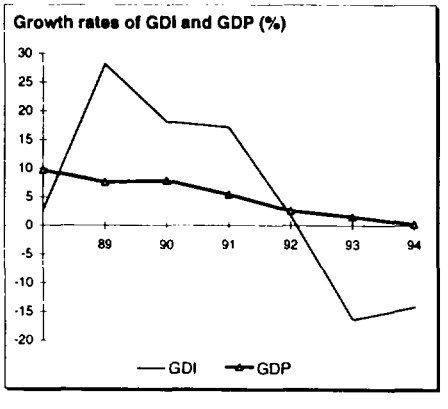
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	37.3	32.7	26.7	33.5	42.7
Industry	29.2	41.4	53.2	42.6	32.1
Manufacturing	12.2	7.9	6.4	7.1	7.5
Services	33.5	25.9	20.1	23.8	25.2
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	4.7	2.2	2.1	1.4	2.4
Industry	3.5	0.3	1.3	-2.4	-5.1
Manufacturing	5.0	-0.3	-2.5	-1.8	-2.6
Services	8.2	5.0	5.7	6.1	3.7
GDP	4.5	2.4	2.6	1.5	0.3



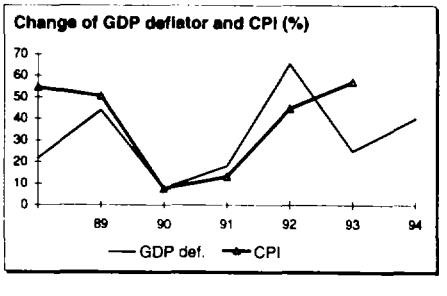
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	73.8	57.4	65.7	63.2	78.6
General government consumption	13.5	14.3	13.1	18.3	10.5
Gross domestic investment	9.0	13.6	16.6	15.1	10.1
Exports of goods and nfs	16.1	43.5	39.1	36.1	21.9
Imports of goods and nfs	12.4	28.8	34.4	32.6	21.0
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	-1.2	2.8	4.1	-1.2	2.2
General government consumption	6.7	4.0	-5.2	28.4	-3.3
Gross domestic investment	2.6	-4.6	1.8	-16.4	-14.1
Exports of goods and nfs	3.1	1.7	3.3	2.9	-4.9
Imports of goods and nfs	-9.0	-0.5	2.2	-2.1	-12.0
Gross national product	3.2	3.4	3.1	1.3	2.7
Gross national income	0.3	0.2	1.5	-1.0	-0.6



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	7.4	7.4	44.6	57.2	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	2.8	7.6	65.4	24.9	40.0
Government finance					
(% of GDP)					
Current budget balance	4.4	3.6	-1.4	-8.6	-2.4
Overall surplus/deficit	-2.0	-2.9	-8.1	-17.8	-9.6

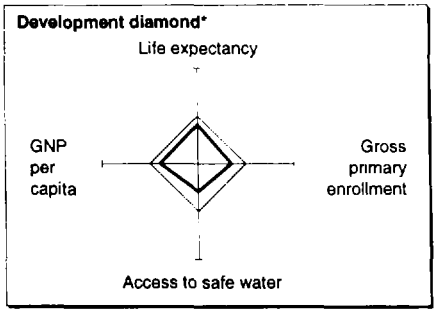


Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

POVERTY and SOCIAL

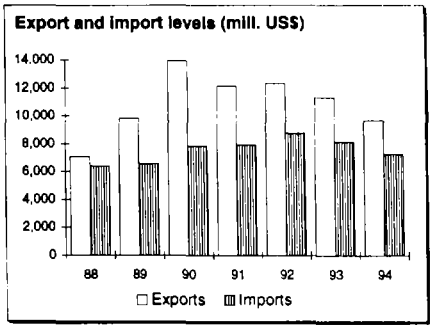
	1985-90	1990-94
(annual growth rates)		
Population	2.9	*3.0*
Labor force	2.7	2.9

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	50.8
Infant mortality *(per 1,000 live births)*	82.6
Child malnutrition *(% of children under 5)*	43.0
Access to safe water *(% of population)*	40.0
Energy consumption per capita *(kg oil equivalent)*	140.5
Illiteracy *(% of population age 15+)*	49.3
Gross primary enrollment *(% of school-age population)*	76.0



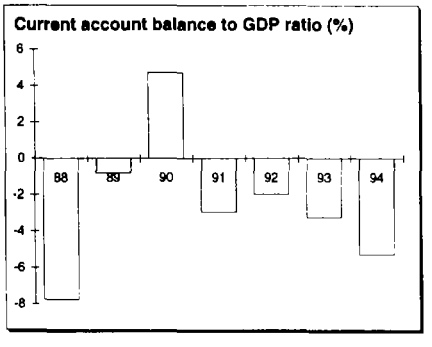
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	12,566	13,914	12,307	11,297	9,661
Fuel	12,203	13,508	12,026	11,022	9,508
Cocoa	310	166	90	76	70
Manufactures	..	..	..	..	..
Total imports (cif)	9,165	7,827	8,737	8,129	7,271
Food	..	..	..	..	.
Fuel and energy	..	..	..	..	.
Capital goods	3,199	3,511	..	..	..
Export price index *(1987=100)*	152	145	119	106	95
Import price index *(1987=100)*	74	102	101	96	97
Terms of trade *(1987=100)*	206	141	118	110	98
Openness of economy *(trade/GDP,%)*	29	72	74	69	43



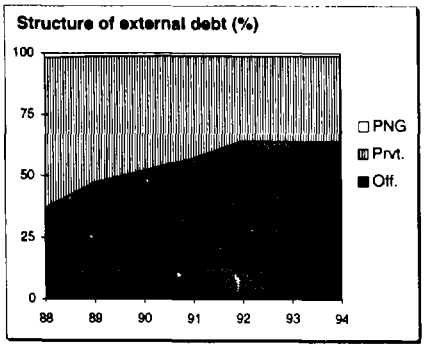
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	13,032	14,083	12,424	11,412	9,759
Imports of goods and nfs	10,070	9,341	10,947	10,317	9,359
Resource balance	2,962	4,742	1,477	1,095	400
Net factor income	-2,916	-3,287	-2,800	-2,627	-2,545
Net current transfers	-260	74	733	605	281
Current account balance					
Before official transfers	-214	1,529	-590	-927	-1,864
After official transfers	-214	1,529	-590	-927	-1,864
Long-term capital inflow	-753	-2,510	-5,225	-1,840	-1,540
Total other items (net)	1,663	3,489	2,039	3,422	2,477
Changes in net reserves	-696	-2,508	3,776	-655	927
Memo:					
Reserves excluding gold *(mill. US$)*	1,667	3,864	967	1,372	..
Reserves including gold *(mill. US$)*	1,892	4,129	1,196	1,640	..
Conversion rate *(local/US$)*	0.9	8.0	18.5	24.5	27.8



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	110.7	230.7	229.7	249.5	295.6
IMF credit/exports	0.0	0.0	0.0	0.0	0.0
Short-term debt/exports	38.0	10.9	17.6	34.7	16.5
Total debt service/exports	34.2	23.6	30.1	16.0	21.1
GDP ratios					
Long-term debt/GDP	18.0	101.7	96.9	100.4	82.3
IMF credit/GDP	0.0	0.0	0.0	0.0	0.0
Short-term debt/GDP	6.2	4.8	7.4	14.0	4.6
Long-term debt ratios					
Private nonguaranteed/long-term	9.7	1.2	1.2	1.1	1.0
Public and publicly guaranteed					
Private creditors/long-term	75.0	46.8	34.6	35.0	34.8
Official creditors/long-term	15.3	52.0	64.3	63.8	64.1



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Rwanda

Rwanda is a small, resource-poor, overpopulated, and landlocked country in Central Africa beset by chronic poverty and ethnic conflict. Its population, which stood at 7.8 million in 1993 (295 inhabitants per square kilometer), declined in 1994 to about 7.0 million as a consequence of the civil war that erupted in April 1994. About 2 million Rwandese live in refugee camps in neighboring Zaire, Burundi, Tanzania, and Uganda, and another million are internally displaced.

Ethnic conflict between Tutsi herders (15 percent of the population) and the majority Hutu farmers led to major exoduses of Tutsis before independence in 1959 and in 1969 and 1972-73. During the late 1980s frequent but minor incidents of ethnic violence culminated with a large-scale invasion of Rwanda in October 1990 by armed rebels of the Rwandese Patriotic Front, composed mainly of exiled Tutsis. A peace agreement was signed in August 1993, and a national coalition government was expected to be formed. However, implementation of the peace accord was delayed. After the death of Rwanda's president in April 1994, intensive fighting resumed throughout the country. The previous government and its army were ousted. Rwanda's new government, sworn in in July 1994, is dominated by the patriotic front, but includes members of both ethnic groups and has gained widespread international recognition.

Recent Economic Developments

Before the recent events, Rwanda was already one of the least developed countries in Africa, with a GNP per capita of $210 in 1993. The economy was essentially rural; nearly 93 percent of the population lived in rural areas and derived its livelihood from subsistence agriculture and the cultivation of coffee and tea, which represented about 80 percent of export earnings.

The economy stagnated over 1990-93, and per capita GDP declined by about 20 per cent. In 1993 the deficit on the current account of the balance of payments exceeded 24 percent of GDP, compared with 16 percent during the previous three years; the ratio of exports to imports declined to 23 percent, from an already low level of 36 per cent over 1988-90, and foreign reserves declined to the equivalent of one month of imports. Fiscal management was the weak link of Rwanda's economic management. The 1993 deficit was 19.2 percent of GDP because of a 1.0 percent decline in tax revenue and continued high levels of military spending. The deficit was financed by recourse to domestic credit, resulting in inflationary pressure. External assistance financed about 60 percent of imports and 90 percent of public investment, and was equivalent to about $30 yearly per capita. Debt outstanding and disbursed was equivalent to 60 percent of GDP in 1993.

The Rwandan civil war dealt a severe blow to the foundations of a narrow and fragile economy. The contraction of the Rwandan economy as a result of the war is difficult to calculate: a reasonable estimate is that real GDP declined by as much as 50 percent in 1994; this came in the wake of an 10 percent contraction in 1993.

Economic Reform Attempts

By the late 1980s Rwanda faced a severe financial crisis brought about by a combination of falling coffee prices and inappropriate macroeconomic policies. It embarked on a reform program in 1990 supported by IDA and an IMF adjustment facility. The key elements of the adjustment program were to stabilize the financial situation, enhance the competitiveness of the economy, improve the allocation and use of resources, lay the foundation for export-led sustainable growth, and provide a framework for poverty alleviation.

In fiscal 1992 the authorities implemented most of the reform measures, with the important exception of coffee sector reforms, including tight fiscal and monetary management (including the devaluation of the Rwandan franc), the introduction of an open general licensing system, elimination of export taxes (with the exception of coffee) and import quotas, and the introduction of a simplified import tariff structure. The adjustment program was derailed by the civil war, which led to an unsustainable buildup of military expenditures and serious disruption of economic activity, especially

in the countryside, and by a 30 percent decline in world market prices for coffee. The war in 1994 dismantled the macroeconomic framework and led to the collapse of the reform program. The government that took power in July 1994 was not in a position to resume adjustment, the focus being on reconstruction and rehabilitation of the country's physical and social infrastructure.

Rwanda's post-war economic situation is grim: more than one-third of the population are refugees in neighboring countries or internally displaced; more than half its agricultural and industrial output was lost, and most Rwandan enterprises are not operating. The collapse of the banking system impeded the normalization of economic activities. Although damage to physical infrastructure such as roads and bridges was relatively light, human losses were enormous, and the central administrative capacity was nearly paralyzed. The country's institutional memory and project implementation capacity were severely handicapped by the killings and disappearance of personnel, destruction of files, and theft of computers and equipment. Most, if not all, externally financed development projects came to a halt, or were replaced by emergency humanitarian assistance.

The immediate challenges facing the government are achieving national reconciliation and the return of refugees and displaced persons, rebuilding institutions, and restarting economic growth and development.

Poverty and Social Indicators

Because of deteriorating economic conditions, exacerbated by the armed conflict since 1990, the percentage of Rwanda's population living below the poverty line of $170 at 1985 prices is estimated to have risen sharply from 40 percent in 1985 to over 53 percent in 1992. As a result of the civil war, the incidence and depth of poverty has worsened. Rwanda's social indicators, which used to be above regional averages, deteriorated in the late 1980s and early 1990s; life expectancy was only forty-nine years; 53 percent of the population was illiterate, infant mortality was 119 per 1,000, and the AIDS epidemic was one of the worst in the world — with 20 percent of the population seropositive — and the incidence of malaria was increasing.

The 1994 crisis also caused a sharp drop in the delivery of social services. A sizable part of the personnel in these sectors was killed or fled. Medical supplies, essential medicines, and vehicles were stolen; medical centers were damaged; and normal distribution channels broke down. Much of current health services are being delivered by international NGOs. Educational infrastructure and equipment were also stolen or vandalized. Nevertheless, a large proportion of primary schools restarted activities in late 1994, albeit with greatly reduced resources: they lacked qualified teachers and basic equipment and essential learning materials such as textbooks, notebooks, and pencils.

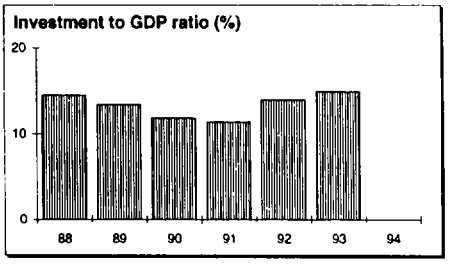
Rwanda

Population mid-1993 *(millions)* **7.6**
GNP per capita 1993 *(US$)* **210**

Income group: **Low**
Indebtedness level: **Severely Indebted**

KEY RATIOS

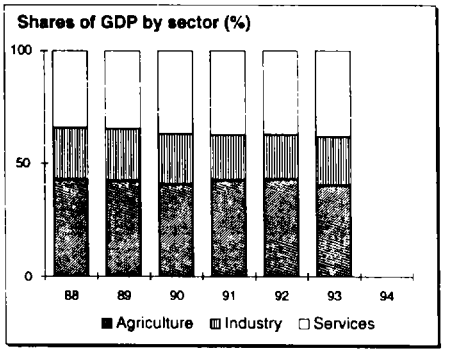
	1985	1990	1992	1993	1994
Gross domestic investment/GDP	17.3	11.8	13.9	14.9	..
Exports of goods and nfs/GDP	10.8	6.5	6.9	7.4	..
Gross domestic savings/GDP	8.2	-1.1	-6.5	-9.6	..
Gross national savings/GDP	8.5	-0.9	-5.3	-8.3	..
Current account balance/GDP	-10.2	-13.2	-19.9	-24.1	..
Interest payments/GDP	0.2	0.3	0.4	0.2	..
Total debt/GDP	21.4	31.9	53.3	60.9	..
Total debt/exports	222.2	468.6	717.0	765.6	..



GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	45.7	40.8	43.2	40.5	..
Industry	25.4	22.3	19.6	21.5	..
Manufacturing	15.0	14.5	12.2	13.9	..
Services	28.9	36.9	37.2	38.0	..

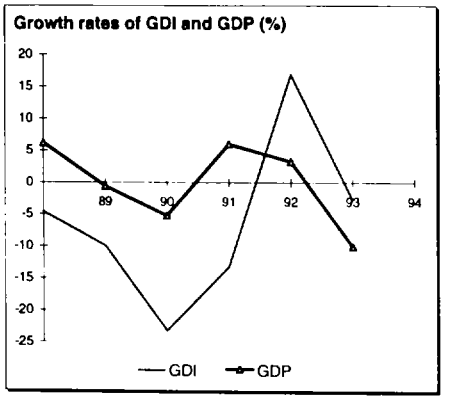
	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Agriculture	0.0	*-5.4*	-1.7	-15.4	..
Industry	-1.5	*0.5*	4.5	2.1	..
Manufacturing	1.1	*0.7*	2.9	3.8	..
Services	4.8	*-4.2*	-1.7	-10.5	..
GDP	1.0	*-0.2*	3.2	-10.0	..



GDP: EXPENDITURE

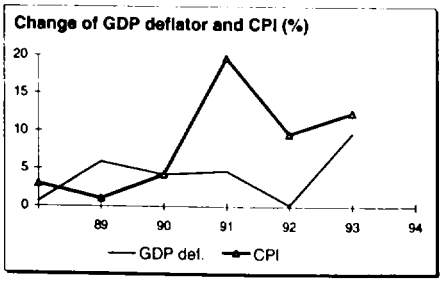
	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	80.5	86.5	79.9	87.4	..
General government consumption	11.3	14.7	26.6	22.2	..
Gross domestic investment	17.3	11.8	13.9	14.9	..
Exports of goods and nfs	10.8	6.5	6.9	7.4	..
Imports of goods and nfs	19.9	19.5	27.3	32.0	..

	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Private consumption	1.0	*-1.4*	-5.4	-0.2	..
General government consumption	6.7	*10.4*	34.2	-27.1	..
Gross domestic investment	-8.1	*1.2*	16.8	-2.7	..
Exports of goods and nfs	3.0	*-5.4*	0.2	-12.8	..
Imports of goods and nfs	-1.5	*3.5*	2.9	11.7	..
Gross national product	1.0	*-0.2*	3.2	-10.0	..
Gross national income	-0.3	*-0.3*	2.0	-9.3	..



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	1.8	4.2	9.6	12.4	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	3.7	4.2	0.2	9.7	..
Government finance					
(% of GDP)					
Current budget balance	2.2	-4.6	-8.3	-8.2	..
Overall surplus/deficit	-4.3	-11.2	-17.5	-18.2	..

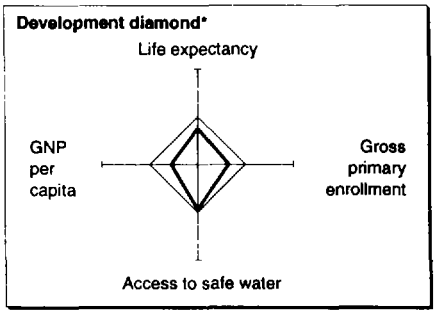


Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

POVERTY and SOCIAL

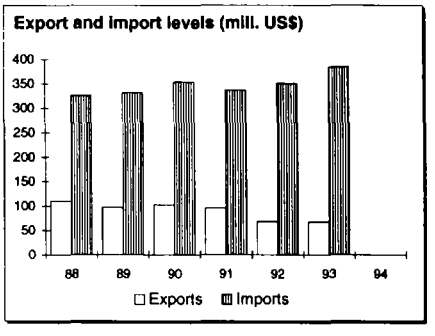
	1985-90	1990-94
(annual growth rates)		
Population	2.9	2.6
Labor force	2.8	2.9

	most recent estimate
Poverty level: headcount index *(% of population)*	53.0
Life expectancy at birth	47.2
Infant mortality *(per 1,000 live births)*	109.0
Child malnutrition *(% of children under 5)*	29.2
Access to safe water *(% of population)*	64.2
Energy consumption per capita *(kg oil equivalent)*	27.4
Illiteracy *(% of population age 15+)*	49.8
Gross primary enrollment *(% of school-age population)*	71.0



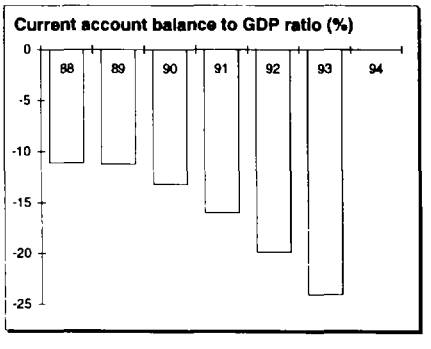
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	119	103	69	68	..
Coffee	86	66	35	42	..
Other agriculture	17	21	21	16	..
Manufactures	5	4	3	4	..
Total imports (cif)	274	354	351	385	..
Food	41	32	29	59	..
Fuel and energy	51	45	37	39	..
Capital goods	56	98	102	104	..
Export price index *(1987=100)*	77	113	120	117	..
Import price index *(1987=100)*	77	113	120	117	..
Terms of trade *(1987=100)*	100	100	100	100	..
Openness of economy *(trade/GDP,%)*	31	26	34	39	..



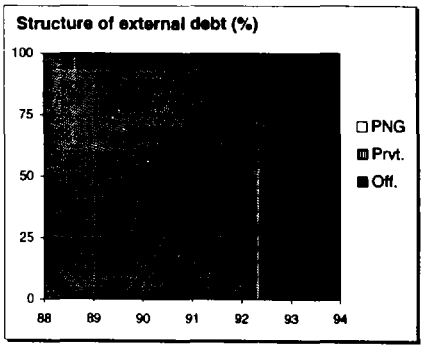
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	154	151	113	111	..
Imports of goods and nfs	328	449	448	478	..
Resource balance	-174	-299	-335	-367	..
Net factor income	-6	-12	-11	-14	..
Net current transfers	4	6	20	21	..
Current account balance					
Before official transfers	-175	-305	-325	-360	..
After official transfers	-63	-167	-107	-111	..
Long-term capital inflow	73	85	86	64	..
Total other items (net)	5	25	-10	16	..
Changes in net reserves	-14	56	31	32	..
Memo:					
Reserves excluding gold *(mill. US$)*	113	44	79	47	..
Reserves including gold *(mill. US$)*	113	44	79	47	..
Conversion rate *(local/US$)*	101.3	82.6	133.4	144.3	..



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	199.8	437.8	660.4	703.1	..
IMF credit/exports	6.1	0.1	9.8	10.1	..
Short-term debt/exports	16.4	30.7	46.8	52.4	..
Total debt service/exports	10.8	13.8	20.2	5.0	..
GDP ratios					
Long-term debt/GDP	19.2	29.8	49.1	55.9	..
IMF credit/GDP	0.6	0.0	0.7	0.8	..
Short-term debt/GDP	1.6	2.1	3.5	4.2	..
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	3.5	0.5	0.2	0.2	0.1
Official creditors/long-term	96.5	99.5	99.8	99.8	99.9



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

São Tomé and Principe

The Democratic Republic of São Tomé and Principe consists of two islands in the Gulf of Guinea about 200 miles off the coast of Gabon. The islands cover a total area of about 1,092 square kilometers, with most of the country's 125,000 inhabitants living on the island of São Tomé, with an estimated per capita GDP of $350 (1993). The Portuguese settled the islands in the 15th century and developed plantations based on sugar cane and coffee. In more recent times, cocoa has been grown on medium and large estates utilizing labor from other African countries. Consumption needs were met largely by imports. At independence in 1975 São Tomé and Principe adopted a centralized economic planning system. Most agricultural land was nationalized, and market mechanisms were limited.

São Tomé and Principe inherited a well-organized cocoa plantation network and supporting infrastructure from the colonial administration, but maintenance of the plantations had declined precipitously by 1975 as the Portuguese reduced investments in anticipation of independence. From 10,000 tons at independence, cocoa output declined to 3,200 tons by 1994, owing to the inability of the government to replace the departing Portuguese with experienced managers and invest adequately in repair and maintenance. Agriculture production, including cocoa, was further discouraged by inappropriate price and trade policies, including an overvalued exchange rate, and low international cocoa prices in the second half of the 1980s.

A variety of microclimates allows cultivation of a broad range of tropical crops. Although about half of the cultivated land area is used for cocoa production, which accounts for over 70 percent of export earnings, the government is promoting diversification of exports and is seeking to establish trade agreements with neighboring countries. Long-term growth will depend largely on expanding domestic and international markets for Santomean agricultural products, including fisheries. Development of tourism is still in its infancy because of poor physical infrastructure and insufficient links with the rest of the world. However, a new airport was completed, and the upgrading of maritime port facilities is under way.

The country is endowed with abundant energy reserves and great natural beauty. Only 10 percent of its estimated hydroelectric potential has been harnessed. The first multiparty elections took place in 1991. A new government was installed in November 1994 after a second democratic electoral process. Because of the political developments, macroeconomic performance was weak in 1994.

Poverty and Social Indicators

São Tomé and Principe's low income level disguises a relatively good performance with regard to other social indicators. Life expectancy at birth is about 68 years; well above the level in most African countries; infant mortality rate is about 48 per 1,000, and the basic literacy rate, at 75 percent, is above that of many low-income developing countries.

Transition to a Market Economy

The government undertook an ambitious public investment program between 1976 and 1983 involving substantial investments in construction, beverages, poultry, fishing, and transport. These investments did not make a significant contribution to GDP growth and created an unsustainable debt-service burden. In spite of economic measures aimed at reforming the incentive system, GDP per capita declined an estimated 30 percent in real terms between 1984 and 1987. The growing losses of both the cocoa plantations and the majority of nonagricultural public enterprises, combined with increasing debt-service obligations, resulted in large fiscal deficits. Faced with internal and external imbalances, the government decided to break with its postindependence policies and embarked on a comprehensive structural adjustment program in mid-1987. Since the onset of the program, the government has taken firm steps toward decreasing its role in the economy.

The second phase of the structural adjustment program started in 1991, and the government has since focused on stabilization policies aimed at achieving macroeconomic equilibrium. It dismantled a complex

system of price and trade controls, and liquidated the state trading company and allowed imports by the private sector. A crawling peg system of exchange rate management was adopted in 1992 to ensure a more timely response to differential inflation trends at home and abroad. Widening fiscal deficits have been contained through tax increases, including a tax increase on petroleum products, and increases in electricity tariffs. Although the primary current balance improved from a deficit of 3.1 percent of GDP in 1990 to a surplus of 1.3 percent in 1993, it deteriorated to a deficit of 9.6 percent of GDP in 1994 because of lax fiscal and monetary policies. In December 1994 the government took drastic measures to reverse this trend and unified the official and free market exchange rates. As a result of the above measures, inflation declined to 20 percent in 1993 from 36 percent in 1991; it rose again to close to 40 percent in 1994 and dropped to nearly zero during the first two months of 1995.

Significant progress has also been made in restructuring the banking system, which was dominated by the National Bank of São Tomé and Principe. The government is committed to reforms in the public investment program to ensure more efficiency. It has also restored the profitability of the major cocoa estates through privatization measures, and encouraged diversification of agricultural production and exports. Finally, major reforms in the public enterprise sector and public administration are under way.

Maintaining fiscal discipline has proved a difficult task. The current fiscal balance (excluding interest on external debt) moved from a deficit of 2.8 percent of GDP in 1990 to a surplus of 3.6 percent of GDP in 1993, but declined to a deficit of 1 percent in 1994. Although the ratio of tax revenues to GDP has risen dramatically from 11 percent in 1991 to 17 percent in 1994 as a result of tax reforms including conversion of all sales taxes from a specific to an ad valorem basis, inclusion of import duties in the tax base for the calculation of the consumption tax, and strengthening of the tax administration, the ratio of expenditure to GDP has risen faster, from 31 percent in 1991 to 51 percent in 1994. The authorities are, however, committed to further strengthening the tax administration and reducing expenditures — mainly transfers to parastatals — and maintaining tight control on the wage bill and parafiscal operations. The government prepared a three-year public investment program for 1993-95, and work has started on a 1995-97 investment program. Total investment for 1994 amounted to $21 million and is programmed at $19 million for 1995.

Lower imports and higher exports of goods and nonfactor services during 1994 allowed the current account deficit (after grants) to drop to $17.6 million from $23.8 million in 1993. Exports of goods averaged $6.5 million in fiscal 1994 compared to $5.7 million in fiscal 1992. Current account deficits of the balance of payments have been financed mainly by loans and grants, and the overall deficit by further accumulation of arrears, debt relief, grants, and some reduction in reserves. The current account deficit (after grants) is expected to drop to $17.2 million (78.6 percent of GDP) in 1995, mainly because of lower imports.

Since the start of the second phase of the structural adjustment program, the government has adjusted the exchange rate at various times, causing a cumulative depreciation of about 328 percent in local currency terms through December 1994, nearly 75 percent in real terms. This devaluation made the more efficient cocoa estates profitable, notwithstanding a fall of about 50 percent in world cocoa prices over the period of adjustment. Pursuit of a more realistic exchange rate policy contributed to reducing the gap between the official and the parallel market exchange rates from 65 percent at end-1987 to 1 percent at end-1992. During fiscal 1994 expansionary monetary policies and delays in donor disbursements have been to a large extent responsible for the wider gap. However, the government stepped in to reverse the trend through tight monetary and fiscal policies and unified the official and free market exchange rates in early December 1994. The authorities have also allowed the operation of exchange houses, which has helped stabilize the exchange rate.

As financing of the fiscal deficit required increased recourse to bank credit, growth in broad money accelerated from an average annual rate of about 7 percent in 1987 to a peak of 31 percent in 1992, reflecting a rapid expansion of credit. In 1993 the authorities reduced the growth of broad money to 18 percent, which contributed to reducing inflation; however, this trend was reversed in 1994. Inflation declined from 36 percent in 1991 to 21 percent in 1993, but rose again to close to 40 percent in 1994. Nominal interest rates have been raised since 1991 to positive levels in real terms, in sharp contrast to the negative real levels of the 1980s. To keep inflation under control, the authorities have also adopted a policy of sterilizing the counterpart funds arising from balance of payments support, with the exception of food aid.

The government has dismantled price controls and eliminated all subsidies on imported foodstuffs and petroleum products. The private sector has taken an increasing role in exporting and importing all but petroleum products since the monopoly of the state trading company was abolished. Export procedures have been greatly simplified, and an automatic import licensing system, currently being implemented, no longer restricts access to foreign exchange. The cocoa export tax has been reduced to 10 percent. Efforts are under way to set up a market-based mechanism to move the distribution of food aid to the private sector.

Government has also undertaken a major land reform and a comprehensive privatization program aimed at reducing budgetary transfers to public enterprises and stimulating private investment. Ten nonagricultural public enterprises have been privatized, liquidated, or brought under foreign management. Eighteen others are expected to be privatized in the next few years. The government is streamlining the civil service and improving the incentive structure by raising salary levels, and has reduced the civil service by 8 percent.

Financial sector reform has been a central feature of the structural adjustment program. The primary objective of the reform was to separate the central banking and commercial banking functions of the National Bank of São Tomé and Principe. A new central bank was established in August 1992, the Caixa Nacional de Poupança e Crédito was created in February 1993, and a private bank, the International Bank, started operations in March 1993.

Medium-Term Prospects

São Tomé and Principe will continue to face a difficult economic and financial situation over the medium term. The authorities intend to accelerate the pace of structural reforms during 1995 to bring inflation under control and narrow the current account deficit to a level that can be financed by grants and concessional aid. The government intends to continue to promote food crop diversification and export expansion, based on smallholder agriculture, together with appropriate pricing and marketing polices. Real output is forecast to increase by an average of 3.0 percent a year between 1995 and 1997 and rise to 4 to 5 percent a year after 1997. The main sources of growth are expected to be increased cocoa production, export diversification of agricultural products and fisheries, construction, tourism, and cottage industries. Continued contraction of public consumption, improved public sector resource allocation and investments, along with improved incentives for the private sector, would imply increased private savings and investments. Private consumption is projected to increase by about 2 percent a year over 1995-97.

External Debt

External debt outstanding and disbursed, which was estimated at about $135 million in 1987, rose to about $236 million in 1994 (including capitalization of arrears), the equivalent of approximately 650 percent of GDP. At the end of 1993 medium- and long-term debt amounted to $190.4 million, representing 81 percent of the total, of which $48.8 million consisted of payments arrears. Short-term debt represents the remaining 19 percent, amounting to $45.1 million, which consisted almost entirely of payment arrears. As a result, the ratio of scheduled debt service (before rescheduling and refinancing) to exports of goods and nonfactor services increased from 64 percent in 1988 to about 95.2 percent in 1994.

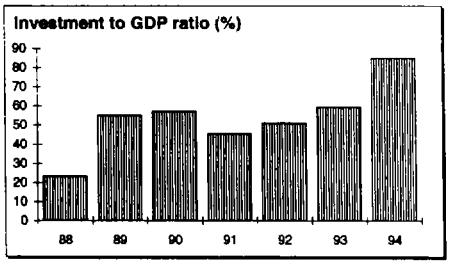
São Tomé and Principe

Population mid-1993 *(thousands)* **122**
GNP per capita 1993 *(US$)* **350**

Income group: **Low**
Indebtedness level: **Severely indebted**

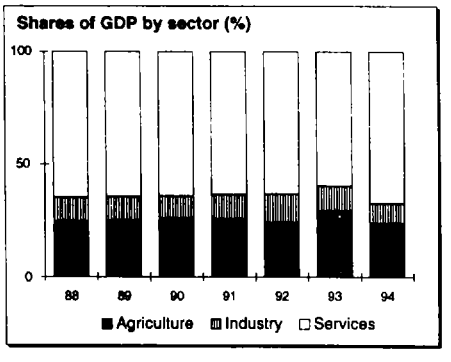
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	37.0	57.2	51.1	59.5	85.0
Exports of goods and nfs/GDP	26.4	16.7	24.1	30.4	42.6
Gross domestic savings/GDP	-18.1	-9.4	-18.8	-18.1	-14.2
Gross national savings/GDP	-23.6	-19.6	-27.9	-27.0	..
Current account balance/GDP	-60.3	-62.0	-81.3	-86.8	-100.2
Interest payments/GDP	3.7	2.4	2.1	2.3	..
Total debt/GDP	178.9	305.4	503.9	648.5	..
Total debt/exports	650.5	1,175.4	2,169.0	2,116.7	..



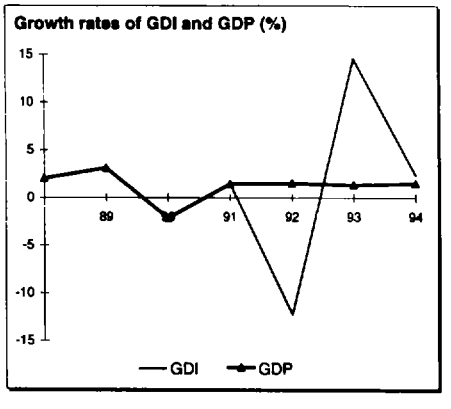
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	..	25.8	24.0	29.3	23.8
Industry	..	10.0	12.9	11.1	9.0
Manufacturing	..	5.6	6.7	..	..
Services	..	64.2	63.1	59.6	67.2
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	..	..	..	..	..
Industry	..	..	..	..	..
Manufacturing	..	..	..	..	..
Services	..	..	..	..	..
GDP	0.7	1.4	1.5	1.3	1.5



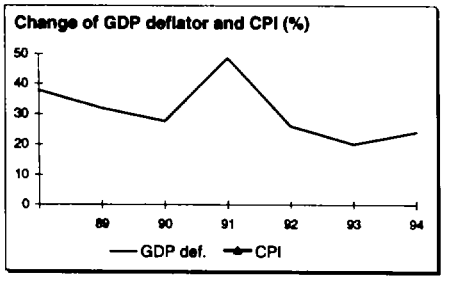
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	80.7	92.1	96.2	89.1	73.4
General government consumption	37.4	17.3	22.6	29.0	40.8
Gross domestic investment	37.0	57.2	51.1	59.5	85.0
Exports of goods and nfs	26.4	16.7	24.1	30.4	42.6
Imports of goods and nfs	81.4	83.3	94.0	108.0	141.8
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	0.9	-10.0	-7.3	-8.9	-25.0
General government consumption	-4.3	22.4	18.1	32.2	38.7
Gross domestic investment	8.4	0.9	-12.2	14.6	2.4
Exports of goods and nfs	4.6	4.5	-0.6	12.6	3.6
Imports of goods and nfs	0.9	-0.6	-10.8	13.2	-6.0
Gross national product	-0.6	0.0	3.3	-1.6	-1.6
Gross national income	-2.8	0.3	2.7	-0.9	-2.4



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	..	..	..	..	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	0.2	27.7	26.0	20.1	24.1
Government finance					
(% of GDP)					
Current budget balance	..	-11.8	-9.2	-10.9	-13.2
Overall surplus/deficit	..	..	..	..	-64.4



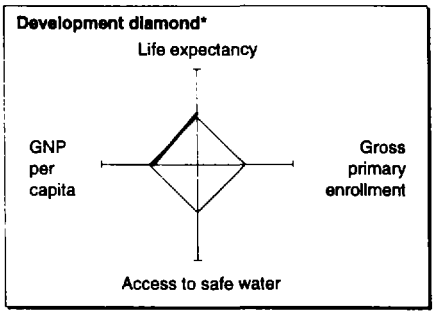
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

São Tomé and Principe

POVERTY and SOCIAL

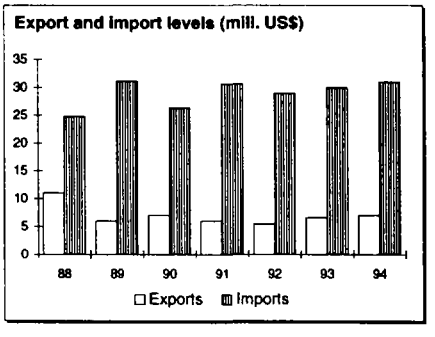
	1985-90	1990-94
(annual growth rates)		
Population	2.0	*2.0*
Labor force	..	..

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	67.0
Infant mortality *(per 1,000 live births)*	25.0
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	..
Energy consumption per capita *(kg oil equivalent)*	188.5
Illiteracy *(% of population age 15+)*	33.0
Gross primary enrollment *(% of school-age population)*	..



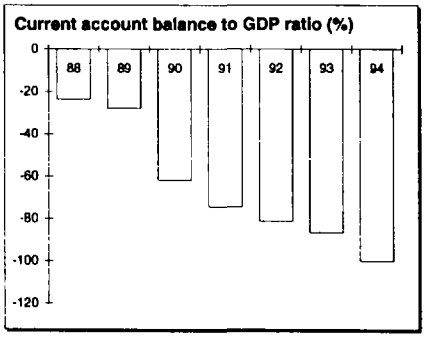
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	7	7	5	7	7
Cocoa	6	6	4	4	5
Copra	1	..	..	..	..
Manufactures	..	..	..	..	..
Total imports (cif)	24	26	29	30	31
Food	7	6	5	4	7
Fuel and energy	..	2	3	3	1
Capital goods	9	9	11	7	11
Export price index *(1987=100)*	..	60	79	..	..
Import price index *(1987=100)*	..	133	..	..	..
Terms of trade *(1987=100)*	..	45	..	..	..
Openness of economy *(trade/GDP,%)*	108	100	118	138	184



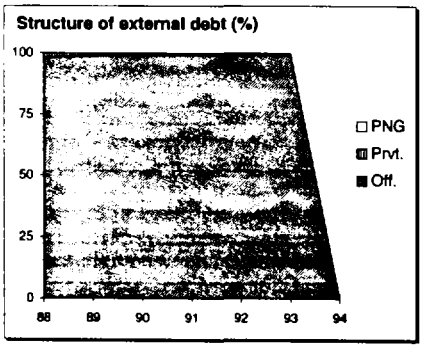
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	9	12	10	12	12
Imports of goods and nfs	29	38	45	42	39
Resource balance	-19	-26	-35	-30	-27
Net factor income	-2	-5	-5	-6	-5
Net current transfers	0	0	1	2	3
Current account balance					
Before official transfers	-21	-31	-35	-34	-29
After official transfers	-16	-20	-22	-24	-15
Long-term capital inflow	8	9	13	9	13
Total other items (net)	9	11	11	20	0
Changes in net reserves	-1	0	-2	-5	2
Memo:					
Reserves excluding gold *(mill. US$)*	..	..	..	..	..
Reserves including gold *(mill. US$)*	..	..	..	..	..
Conversion rate *(local/US$)*	44.6	143.3	321.3	429.9	732.6



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	642.2	1,043.1	1,956.0	1,881.7	..
IMF credit/exports	0.0	8.5	11.0	9.2	..
Short-term debt/exports	8.3	123.8	202.0	225.8	..
Total debt service/exports	29.1	21.5	26.0	20.8	..
GDP ratios					
Long-term debt/GDP	176.6	271.0	454.4	576.5	..
IMF credit/GDP	0.0	2.2	2.6	2.8	..
Short-term debt/GDP	2.3	32.2	46.9	69.2	..
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	..
Public and publicly guaranteed					
Private creditors/long-term	9.2	0.9	0.6	0.5	..
Official creditors/long-term	91.0	99.1	99.4	99.5	..



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Senegal

Senegal is a small semi-arid Sahelian country whose population growth of about 3.0 percent a year is substantially above real annual GDP growth of 1.7 percent over 1988-1993. Predominantly rural and with limited natural resource endowments, the economy is highly vulnerable to climatic vagaries and price fluctuations in international commodity markets, and has long been dependent on external funding. The modern sector, which includes fishing, phosphates, chemical industries, manufacturing, and tourism, is concentrated in Dakar and on the coastal belt. Following the January 1994 devaluation of the CFA franc, per capita GNP in 1994 is estimated at $750. Adult literacy and primary enrollment rates in 1993 were 27 percent and 58 percent respectively, 27 percent and 21 percent below the average for Sub-Saharan Africa. Although Senegal has shown improvements in life expectancy, infant mortality, and child mortality, these indicators remain below those for other lower-middle-income countries.

At independence in 1960, Senegal inherited a relatively well-developed economy. Between 1974 and 1978, a fortuitous combination of good rainfall and high world prices for groundnuts and phosphates led to a short-lived export boom that fueled high levels of public investment. A succession of droughts together with a substantial deterioration in terms of trade between 1978 and 1981 led to heavy borrowing to continue past spending patterns and created significant macroeconomic imbalances that were not corrected until 1984. Between 1984 and 1988 real GDP grew at an average rate of 4.3 percent, but this could not be sustained. The large real depreciation achieved by many competitor countries and trade partners since 1985, combined with negative terms of trade shocks, led to an increasing overvaluation of Senegal's real exchange rate, and the economy experienced a serious decline in key sectors after 1988.

Recent Economic Performance

Since the beginning of the 1990s Senegal's economy has experienced a serious contraction. The inability of firms to compete implied a shrinking tax base that led the government to increase its reliance on exceptional revenue measures, such as heavy taxation of petroleum imports. This had an adverse impact on costs of production and forced firms to close or join the informal economy. In 1992 and 1993 Senegal's economy continued to deteriorate as the difficulties of pursuing an adjustment strategy based on internal deflationary policies became more acute. The fiscal deficit and balance of payment positions worsened, with the fiscal balance (excluding grants) declining from a 0.2 percent surplus in 1991 to a 3.9 percent deficit in 1993, and the current account balance (excluding transfers) sliding from a deficit of 8.3 percent of GDP to 9.3 percent over the same period. Substantial domestic and external arrears accumulated and foreign reserves declined sharply. Thus, the economy was stuck in a low-level equilibrium characterized by a sustained recession and underutilized capacity.

To halt a rapidly deteriorating situation the Senegalese authorities adopted several measures in August 1993 designed to deepen the deflationary policies that had been followed through the preceding decade, including a 15 percent cut in public sector wages. Although these measures contributed to reducing imbalances, the magnitude of the real exchange rate overvaluation was such that they came too late to be able to restore the competitiveness of the economy. There was an overall budget deficit of CFAF 47 billion, and arrears rose from CFAF 49 billion to CFAF 134 billion by the end of 1993. Net foreign assets fell by CFAF 17 billion during the last six months of the year and reached minus CFAF 203 billion. Overall, growth prospects remained extremely poor.

As the internal adjustment strategy pursued by the authorities fell short of expectations, the government joined other member countries of the CFA franc zone in devaluing the currency 50 percent against the French franc in January 1994. At this stage the real exchange rate overvaluation has been sufficiently corrected by the nominal devaluation — inflation remained below the 40 percent target for the first year, resulting in a real depreciation of over 30 percent in foreign currency terms — to permit renewed economic growth, if implementation of accompanying measures is sustained. There are signs of recovery in production in several sectors where the devaluation had a particularly favorable impact. For

example, exports of phosphoric acid are up in volume by 27 percent, total fish exports are up in volume by 17 percent, the production of cement has increased (first quarter production in 1994 was 19 percent over the same period in 1993), and the number of tourism arrivals is up 31 percent. However, because of an initial contraction and collection lags, there has been a substantial shortfall in government receipts, particularly for customs duties on imports of nonessential consumer goods. Furthermore, according to local banks, most investment projects are still being postponed, although potential investors are actively negotiating for several enterprises in such sectors as textiles, shoes, and leather that had shut down during the recession.

Senegal's current account deficit, including gross official transfers, was 7.6 percent of GDP in 1994.The overall deficit was 4.4 percent of GDP in 1994, and real GDP growth was 2.1 percent. Senegal's outstanding external debt totaled about $3.7 billion in 1993, or 64.7 percent of GDP. Debt outstanding as a percentage of GDP has increased as a result of the devaluation and is projected to be reach 73.3 percent in 1996. Debt service as a share of exports is, however, expected to decrease from 21.5 percent in 1993 to 18.8 percent in 1996. In 1993, 60.8 percent of Senegal's total debt disbursed and outstanding was concessional, and its strategy is to contract new debt exclusively on concessional terms. The country recently benefited from a generous Paris Club rescheduling in addition to receiving extensive debt relief from France, and a commercial debt buyback operation is under preparation.

Structural Adjustment

The government's reform effort began in 1980, and while little structural adjustment took place in the first half of the decade, more substantial structural changes occurred after 1985. However, the adjustment programs suffered major setbacks because of negative exogenous shocks and policy slippage. The broad objectives of the adjustment programs have been to reestablish viable balance of payments and public finance positions, promote private investment and production in agriculture and industry, and achieve greater efficiency in managing public sector resources. More recently, as the lack of competitiveness of the economy had become more acute, a central focus of the reform effort has been to restore competitiveness through internal deflationary policy. Sectoral level reforms covered the banking and financial sector, and the human resources and the transport sectors.

The economy was substantially liberalized in the mid-1980s, and progress was made in investment planning and programming and population policy. Senegal's tax structure and administration have been simplified, as have the regulatory and administrative procedures for setting up private sector investment operations, and a public enterprise reform was undertaken. Despite progress in privatization, simplifying the tax structure, and eliminating direct subsidies to public enterprises, improvements in civil service reductions were later reversed.

Financial sector adjustment, completed in 1992, was restructured and consolidated the Senegalese banking sector; nine banks out of fifteen were liquidated, restructured, or merged. In parallel, the Central Bank of the Monetary Union undertook far-reaching reforms aimed at removing controls on lending margins and sectoral allocations of credit, improving bank supervision, and moving from direct control on credit to a system of indirect control through an interbank money market.

While the CFA franc devaluation offers Senegal a window of opportunity to make a breakthrough to sustained growth, it continues to face major challenges, including maintaining the reform momentum created by the devaluation. The devaluation has eliminated the need for the distortionary policies necessitated by the overvalued exchange rate and is proving to be a powerful impetus to reform. As a result, long-stalled reforms have been approved, including amendment of the Labor Code and dismantling of monopolies through the elimination of special agreements with enterprises.

Medium-Term Prospects

The government adopted an adjustment program for 1994-96 whose objectives are to achieve real GDP growth of 4.7 percent in 1995 and 4.8 percent in 1996, increase the investment-to-GDP ratio from 14.1 percent in 1993 to 16.7 percent (measured in current prices) in 1996, achieve primary surpluses in the government's budget that reduce the budget deficit on a commitment basis excluding grants from 4.5 percent of GDP in 1994 to 1.7 percent in 1996, and contain the external current account deficit, excluding official transfers, to 9.8 percent of GDP in 1994 and reduce it to 7.3 percent by 1996.

Achieving the real growth target over the long term will depend on favorable supply responses in agriculture and industry. For the major export crops, as well as for rain-fed food crops, technical, institutional, and environmental factors still represent important obstacles. The physical constraints to development are not amenable to change in a medium-term perspective: improved soil and water resource management can affect agricultural production only gradually, and mineral and fish resources are currently exploited at near-optimum rates. Industrial expansion will depend to a large extent on the response of domestic and foreign investors to the industrial incentives and on the success of measures to reduce production costs. In addition, Senegal faces key envi-

ronmental issues such as soil degradation, salinization of agricultural land in low-lying coastal areas, and loss of forest cover. It is estimated that soil fertility is declining by 3 to 5 percent a year, and forestry resources by 1.2 percent a year. Persistent lack of funding for maintenance has resulted in serious deficiencies in transport, irrigation development, and water.

Sustaining the improvement in real per capita income will hinge on the government's ability to deal effectively with the difficult problem of rapid population growth. The government has recently formulated a population policy, but demographic growth will remain, at least for the next decade, one of the major constraints to Senegal's development efforts. Senegal's population at the turn of the century will be about 10 million people. Approximately 125,000 young adults are expected to join the labor force every year. Rapid population growth also has an adverse impact on the environment.

In education, overall enrollment increased by one-third between the first and the second half of the 1980s, with female enrollment growing faster than male. The most recent estimates for primary education are that the enrollment ratio is 56 percent, a decline from 58 percent in 1993, while the average number of pupils per teacher is 58. Life expectancy increased from 45 years in 1980 to 47 in 1990, while infant mortality declined from 116.0 per 1,000 live births to 80.6 between 1975 and 1991. However, on almost all these scores, the trend has been at best stagnant in recent years, rather than improving. The government has resolved to improve access to key social services, and primary education accounts for 66 percent of planned investments in the education sector over 1991-94, up from 42 percent in the 1981-86 plan period. Primary health care has been expanded recently, and in recent years allocation of resources for health care has seen a shift from hospital-based and urban (45 percent in the 1981-85 period compared to an allocation of 34 percent for the 1986-95 period) to health-center-provided services and to rural areas. Finally, government has promoted programs of public works rehabilitation and microenterprise development in a bid to increase employment.

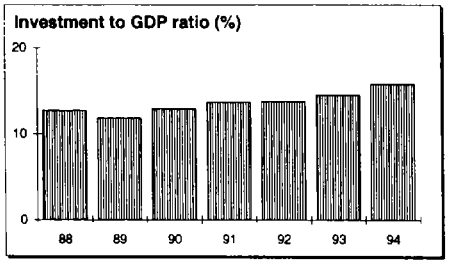
Senegal

Population mid-1993 *(millions)* **7.9**
GNP per capita 1993 *(US$)* **750**

Income group: **Lower-middle**
Indebtedness level: **Moderately indebted**

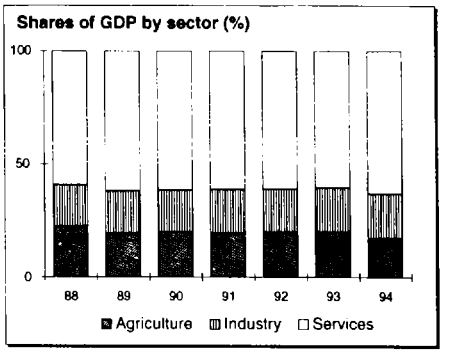
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	9.8	12.9	13.8	14.5	15.8
Exports of goods and nfs/GDP	29.7	25.4	23.0	22.6	35.7
Gross domestic savings/GDP	-1.4	8.1	7.5	7.6	9.7
Gross national savings/GDP	-6.8	4.5	4.8	4.9	6.4
Current account balance/GDP	-16.8	-7.8	-9.0	-9.5	-9.0
Interest payments/GDP	2.0	1.5	0.8	0.4	2.1
Total debt/GDP	99.4	65.4	59.6	67.3	98.4
Total debt/exports	281.6	236.3	235.9	272.2	283.2



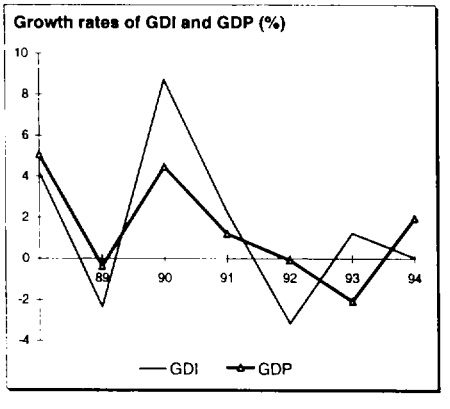
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	18.7	19.9	20.0	20.1	17.2
Industry	17.7	18.7	19.2	19.7	20.0
Manufacturing	12.8	13.1	13.3	13.5	13.9
Services	63.6	61.4	60.8	60.2	62.9
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	3.3	-4.9	-0.9	-5.4	-12.2
Industry	5.6	1.1	2.6	-2.2	3.3
Manufacturing	6.7	-1.7	-5.7	-1.4	1.0
Services	2.8	1.2	-0.6	-0.9	6.1
GDP	3.4	0.0	-0.1	-2.1	2.0



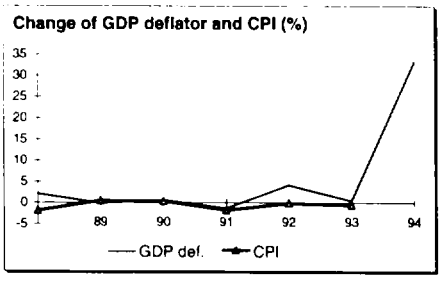
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	84.6	77.3	79.2	79.5	78.7
General government consumption	16.8	14.6	13.4	12.9	11.6
Gross domestic investment	9.8	12.9	13.8	14.5	15.8
Exports of goods and nfs	29.7	25.4	23.0	22.6	35.7
Imports of goods and nfs	40.9	30.2	29.3	29.5	41.8
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	2.5	1.0	4.6	-2.5	1.8
General government consumption	1.5	-3.6	-3.8	1.0	-13.4
Gross domestic investment	7.7	-0.1	-3.1	1.2	0.1
Exports of goods and nfs	2.9	1.4	3.0	-1.3	2.2
Imports of goods and nfs	1.3	2.4	12.3	0.0	-5.7
Gross national product	3.5	0.1	0.0	-2.2	1.1
Gross national income	3.7	0.3	1.1	-2.5	1.8



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	13.0	0.3	-0.1	-0.6	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	9.1	0.7	4.1	0.5	33.2
Government finance					
(% of GDP)					
Current budget balance	-1.3	0.4	0.7	0.4	0.4
Overall surplus/deficit	..	..	..	-4.0	-4.7

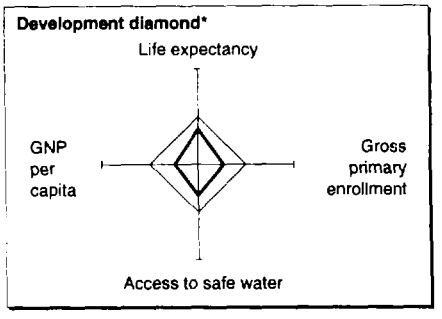


Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

POVERTY and SOCIAL

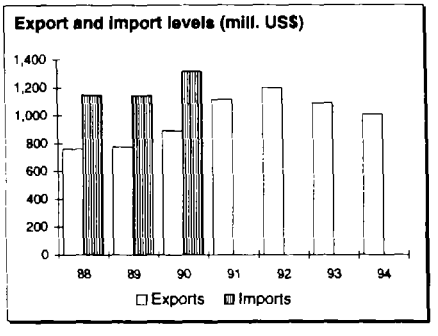
	1985-90	1990-94
(annual growth rates)		
Population	2.8	2.5
Labor force	1.9	2.0

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	49.7
Infant mortality *(per 1,000 live births)*	66.8
Child malnutrition *(% of children under 5)*	20.1
Access to safe water *(% of population)*	51.2
Energy consumption per capita *(kg oil equivalent)*	114.5
Illiteracy *(% of population age 15+)*	61.7
Gross primary enrollment *(% of school-age population)*	56.0



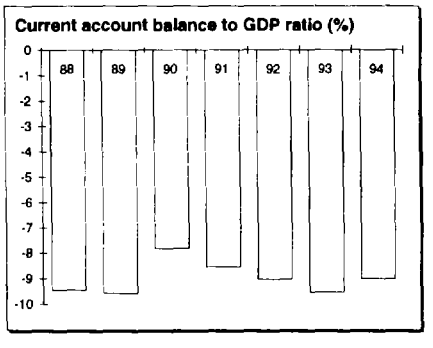
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	481	891	1,200	1,089	1,008
Fish	120	200	..	..	..
Fuel	51	26	..	..	..
Manufactures	130	307	..	..	..
Total imports (cif)	900	1,316	..	..	..
Food	258	364	..	..	..
Fuel and energy	195	159	..	..	..
Capital goods	115	187	..	..	..
Export price index *(1987=100)*	84	110	..	..	..
Import price index *(1987=100)*	92	105	..	..	..
Terms of trade *(1987=100)*	92	105	..	..	..
Openness of economy *(trade/GDP,%)*	71	56	52	52	77



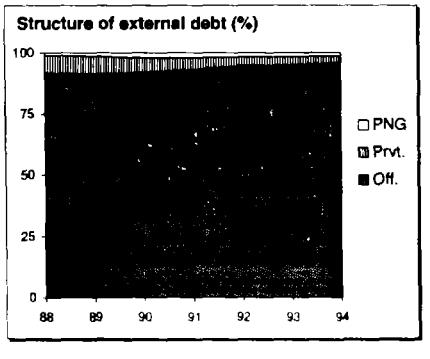
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	845	1,472	1,422	1,269	1,325
Imports of goods and nfs	1,162	1,751	1,810	1,655	1,553
Resource balance	-318	-279	-388	-386	-228
Net factor income	-123	-197	-200	-189	-163
Net current transfers	8	29	37	40	41
Current account balance					
Before official transfers	-434	-447	-551	-535	-350
After official transfers	-272	-397	-551	-483	-298
Long-term capital inflow	155	82	103	149	234
Total other items (net)	103	361	468	223	65
Changes in net reserves	14	-46	-20	111	-1
Memo:					
Reserves excluding gold *(mill. US$)*	5	11	12	3	..
Reserves including gold *(mill. US$)*	15	22	22	15	..
Conversion rate *(local/US$)*	449.3	272.3	264.7	283.2	555.2



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	227.6	189.9	195.4	221.1	239.7
IMF credit/exports	29.4	19.9	17.6	17.6	20.0
Short-term debt/exports	24.6	26.4	22.9	33.5	23.5
Total debt service/exports	20.8	20.6	13.6	8.5	25.1
GDP ratios					
Long-term debt/GDP	80.4	52.6	49.4	54.6	83.3
IMF credit/GDP	10.4	5.5	4.5	4.4	7.0
Short-term debt/GDP	8.7	7.3	5.8	8.3	8.2
Long-term debt ratios					
Private nonguaranteed/long-term	0.6	2.0	1.7	1.6	1.3
Public and publicly guaranteed					
Private creditors/long-term	13.4	6.0	3.7	3.5	2.8
Official creditors/long-term	86.0	92.0	94.6	94.9	95.9



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete

Seychelles

Seychelles is an archipelago of some 115 islands in the western Indian Ocean, with a land area of 445 square kilometers and an exclusive economic zone of about 1.3 million square kilometers. An essential feature of the islands is their unique ecology, pristine environment, and touristic attraction. Among them is Aldabra, one of the last refuges of the giant land tortoise. Seychelles' population of about 70,000 is concentrated on the main island of Mahé and two others nearby and is growing at about 0.9 percent a year. The minuscule size of the economy and its reliance on external markets — foreign trade averaged 156 percent of GDP over the last five years — render it particularly vulnerable to external economic conditions. Seychelles has experienced rapid and reasonably equitable economic growth. GNP per capita rose from $870 in 1976 to about $6,280 in 1993.

Seychelles became independent in 1976 under a coalition government. In 1977 a coup established a one-party socialist state, and in 1992 the government initiated a transition to multiparty rule. A new constitution was adopted in April 1993, and elections were held three months later.

Seychelles' main economic activities are tourism and fishing, and some agriculture and small-scale manufacturing. Industry and agriculture have been severely constrained by limited land, water, and skilled labor and the small size of the domestic market and remoteness of the islands. With the development of tourism since the early 1970s and of port services for foreign tuna fishing fleets since the early 1980s, the role of agriculture declined further. The country's tropical climate and unique environment attract mid- and upscale tourists. In the peak year of 1993, visitors numbered 116,000, compared with 37,000 in 1976, an average growth rate of 6.6 percent, and generated some 17 percent of GDP, 60 percent of exports of goods and services, and 19 percent of formal employment. Fishing, the source of the second most important export, lagged far behind, accounting for only 1 percent of GDP and about 8 percent of the exports of goods and services.

Recent Economic Developments

Until recently, Seychelles' development relied on economic policies emphasizing public-sector-led development and important amounts of external savings. Most of the economy, with the exception of the banking sector, is publicly owned and managed, including the most modern part of the key tourism sector. The public sector employs two-thirds of the labor force, the government's budget is about half of GDP, and government consumption is about 40 percent of GDP. The wage structure is dominated by public-sector wages, which promote even income distribution rather than incentives and efficiency. Over 1975-93 yearly net official development assistance transfers averaged about $200 per capita.

Between the mid-1970s and 1990 Seychelles' economy expanded at 6.3 percent a year, driven by tourism and relatively abundant external financing, albeit with some pauses reflecting external shocks. In 1991 the economy entered another cycle of a setback caused by an external shock, followed by financial difficulties brought on by increased public spending. Performance slipped in 1991 when tourist arrivals fell in reaction to fears of safety during and immediately after the Persian Gulf war. Tourist arrivals and expenditure fell by 13 percent and 19 percent, respectively, and real GDP growth fell to 2.2 percent. In 1992, although arrivals and expenditure increased by 9.4 percent and 14 percent respectively over 1991 levels, they remained below the results of 1990. The slow rebound of the critical tourism sector reflects, in part, past insufficient effort to rehabilitate and upgrade hotel infrastructure and diversify tourist services, and the vulnerability of the tourism industry to economic conditions in industrialized countries, notably Western Europe.

Over 1992-93 increased public expenditures covered the negative growth impact of the decline in tourism earnings while inducing public finance and balance of payments difficulties. Real GDP growth averaged 6.2 percent over the two years, driven by exceptional expenditures linked to the democratization process and infrastructure for the Indian Ocean Games. At the same time, despite new revenue measures (including temporary import surcharges and tax increases on alcohol and tobacco) that boosted revenues by a cumulative 11 percent of GDP over the two years, the budget deficit (before grants) remained about as high as in 1991 (about 5

percent of GDP). In 1991 import controls and administrative payment delays helped temporarily contain the current account deficit (before grants) at 5.8 percent, compared with a surplus of 8 percent in 1990. A temporary requirement imposed on exporters to surrender 30 percent of their gross foreign exchange earnings to the central bank was eased to 15 percent in early 1992. The high import content of expenditures over 1992-93 amplified balance of payments difficulties. The current account deficit (before grants) averaged 8.6 percent over the two years. Short-term external trade arrears equivalent to two months of imports were accumulated by end-1993.

Social Indicators

Economic growth has been accompanied by significant progress in social conditions. Seychelles has low unemployment and actually faces a shortage of skilled labor. Social indicators are comparable to those of higher-income countries. The government has sought to minimize income disparities and provide equal access to education, health, and housing: 75 percent of the children 6 to 14 are in school; there are 6.2 hospital beds per 1,000 inhabitants and one physician for 1,403 people; 99 percent of the population has access to basic health care; life expectancy at birth is almost 71 years; infant mortality is 17 per 1,000, almost all children under one year of age are immunized against the most common childhood diseases; the entire urban population and 95 percent of the rural population have access to safe water; and subsidized housing has been made available to low-income and large families. The social expenditure programs are inefficient; they include transfers that leak outside target groups and create disincentives to work.

Seychelles has legislated and practiced gender equality. Women enjoy equal access to education and jobs, including management positions and official appointments. In 1990, women represented 43 percent of the active labor force.

Medium-Term Prospects

The government's development objectives are to improve the quality of life of all Seychellois and achieve environmentally sustainable development. Its recent strategic thinking has emphasized diversifying tourist markets and developing ecotourism to reconcile environmental constraints and growth objectives. Other goals include skill enhancement to raise productivity and faster introduction of incentives for private investment and poverty reduction through social spending policies targeted at lower-income groups. On the fiscal side it aims for fiscal moderation through gradual disengagement of the state from the economy, stronger public investment management through public investment programming, and improving debt management by seeking most favorable terms, converting floating-rate liabilities into fixed-rate debt, and reviewing debt buy-back or conversion opportunities and raising public savings and foreign reserves to provide a cushion against external uncertainties.

The setback in the tourism sector in 1991 and the reemergence of financial difficulties in 1992-93 drove home to the authorities the need to accelerate the expansion of the private role in the economy and adopt more prudent public expenditure policies. More sectors are being opened to private participation, a new and more liberal investment law is bring prepared, and some parastatal assets in the hotel sector and the port have been privatized. At the same time, the authorities have set up a commission to propose tax reforms to encourage private-sector growth. In addition, sharp reductions in public expenditure during fiscal 1996 should help curb the aggregate demand overhang from 1991-93 and restore external sector viability.

The preservation of the environment and effective use of human resources are Seychelles' main challenges of sustainable development. The government is firmly committed to protecting the environment and prepared in 1990 a ten-year Environmental Management Plan of Seychelles that has received broad donor support. In 1994 it prepared a program for human resource development. Seychelles supports greater regional cooperation in the area of environment — on marine pollution in particular — and education, through the Indian Ocean Commission.

For the foreseeable future, Seychelles' economy will remain dependent on tourism, despite efforts to diversify into fishing, fish processing, agriculture, light manufacturing, and regional transshipment and offshore services. The tourism marketing strategy is likely to remain aimed primarily at mid- and upscale tourists willing and able to pay above-average airfares and landing fees. So far, Seychelles has been successful in attracting such tourists. Weaknesses in fiscal management remain a major shortcoming.

The government has formulated a medium-term macroeconomic framework in the context of preparing its first three-year public investment program. A strategy encouraging greater private sector investment and production and more efficient delivery of public sector services could allow Seychelles to achieve annual real growth of about 5 to 6 percent over 1995-99, supported by investment equivalent to 18 to 19 percent of GDP, compared with 24 percent over 1987-92. Public investment would decline from 13 percent of GDP in 1989-93 to around 10 percent over 1994-98, while private investment would rise from 5 to 6 percent of GDP to 8-9 percent.

Provisional 1994 fiscal results, including a deficit of 7.8 percent of GDP, show that the government has not begun to live up to the broad targets of the medium-term plan in which fiscal adjustment is a key element. To make up for the delayed start on adjustment, the authorities announced their determination to pursue rigorous fiscal policies over 1995-98, limiting the overall deficit to a maximum of 4 percent of GDP, and financing it in a noninflationary way, thus keeping inflation below 5 percent. Together with prudent credit policies, this would keep aggregate demand broadly in line with resource availabilities, with an average current account deficit (before official transfers) of the order of 5 to 6 percent of GDP, and a debt-service ratio to exports of goods and services below 10 percent.

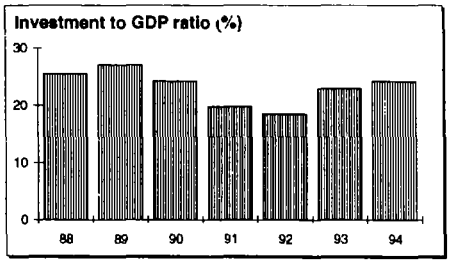
Seychelles

Population mid-1993 *(thousands)* **72**
GNP per capita 1993 *(US$)* **6,280**

Income group: **Upper-middle**
Indebtedness level: **Less indebted**

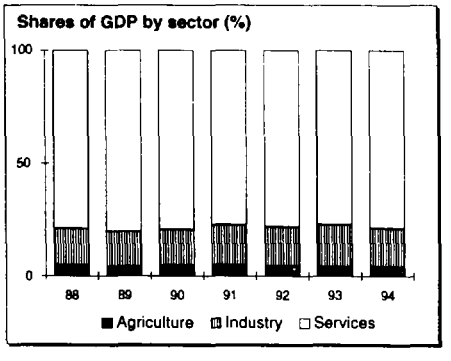
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	22.7	24.3	18.5	23.0	24.2
Exports of goods and nfs/GDP	68.9	68.5	63.0	62.9	65.0
Gross domestic savings/GDP	27.9	37.7	14.2	8.7	15.9
Gross national savings/GDP	24.4	31.8	12.7	7.3	13.7
Current account balance/GDP	1.5	-11.9	-5.1	-12.2	-10.2
Interest payments/GDP	1.4	1.9	1.3	1.3	1.1
Total debt/GDP	58.0	52.3	42.4	36.7	41.5
Total debt/exports	82.5	74.9	66.4	56.2	63.2



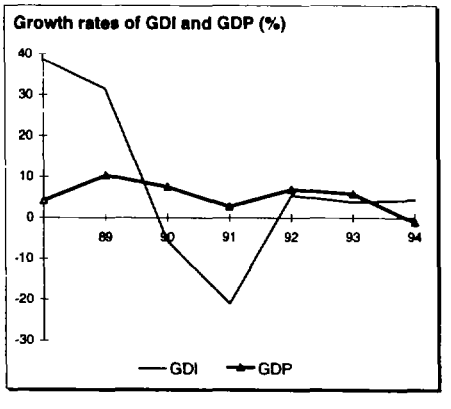
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	5.8	4.6	4.4	4.1	4.1
Industry	18.4	16.1	17.7	18.9	17.3
Manufacturing	9.7	9.0	9.7	11.2	..
Services	75.9	79.3	77.9	76.9	78.6
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	-0.3	-2.7	-6.7	-1.8	-1.0
Industry	3.2	2.9	-0.4	11.4	-9.7
Manufacturing	9.0	*3.9*	2.4	12.4	..
Services	6.5	4.7	9.4	5.0	0.8
GDP	5.6	4.1	6.9	5.8	-1.1



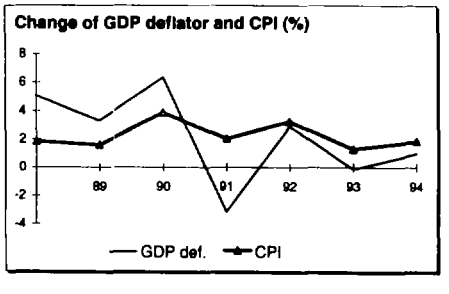
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	37.5	34.8	53.7	43.6	41.0
General government consumption	34.6	27.6	32.2	47.7	43.2
Gross domestic investment	22.7	24.3	18.5	23.0	24.2
Exports of goods and nfs	68.9	68.5	63.0	62.9	65.0
Imports of goods and nfs	63.8	55.1	67.3	77.1	73.4
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	-14.2	47.4	237.1	7.8	-24.7
General government consumption	3.3	7.5	-2.8	2.0	2.0
Gross domestic investment	12.3	-1.2	5.4	3.8	4.3
Exports of goods and nfs	21.1	-3.9	-7.2	9.9	-15.1
Imports of goods and nfs	13.0	8.0	35.6	7.7	-23.3
Gross national product	5.2	5.3	10.6	5.7	-1.1
Gross national income	1.4	8.4	43.3	-5.7	-2.2



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	0.8	3.9	3.2	1.3	1.9
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	2.3	6.4	2.9	-0.1	1.0
Government finance					
(% of GDP)					
Current budget balance	0.2	9.1	5.4	7.1	1.0
Overall surplus/deficit	-11.9	-0.8	-4.4	-5.3	-8.2



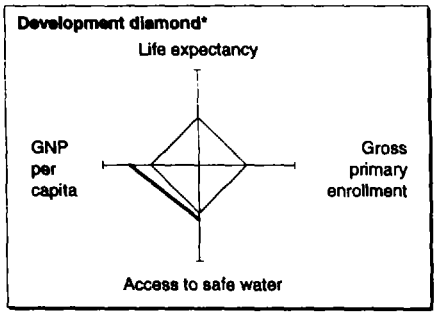
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Seychelles

POVERTY and SOCIAL

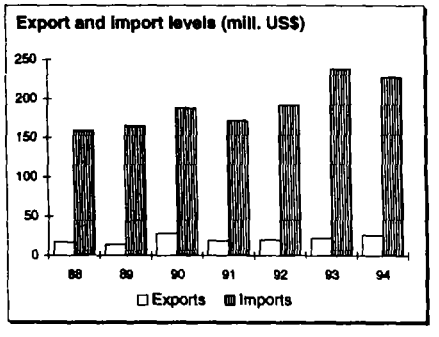
	1985-90	1990-94
(annual growth rates)		
Population	1.5	*0.9*
Labor force	..	..

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	..
Infant mortality *(per 1,000 live births)*	..
Child malnutrition *(% of children under 5)*	5.7
Access to safe water *(% of population)*	98.5
Energy consumption per capita *(kg oil equivalent)*	1,680.6
Illiteracy *(% of population age 15+)*	..
Gross primary enrollment *(% of school-age population)*	..



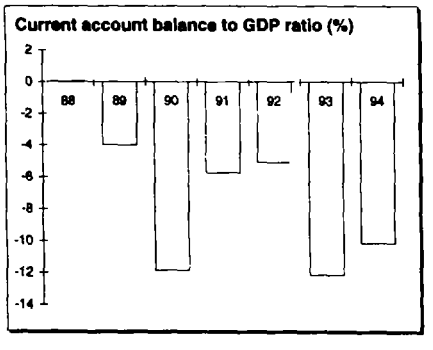
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	5	28	20	22	26
Copra	1	..	..	3	..
Fish	1	2	4	2	..
Manufactures	..	10	13	19	..
Total imports (cif)	100	188	192	238	228
Food	17	34	41	46	..
Fuel and energy	26	36	33	34	..
Capital goods	25	50	40	60	..
Export price index *(1987=100)*	65	..	..	..	..
Import price index *(1987=100)*	96	..	..	..	..
Terms of trade *(1987=100)*	67	..	..	..	..
Openness of economy *(trade/GDP,%)*	133	124	130	140	138



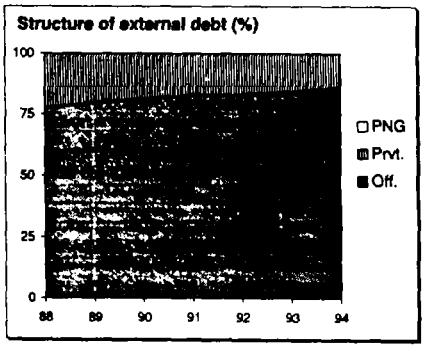
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	116	256	268	287	288
Imports of goods and nfs	108	281	283	335	325
Resource balance	9	-25	-15	-48	-37
Net factor income	-6	-16	-4	-4	-3
Net current transfers	0	-3	-2	-2	-5
Current account balance					
Before official transfers	3	-44	-22	-54	-45
After official transfers	17	-9	2	-20	-10
Long-term capital inflow	16	19	16	35	31
Total other items (net)	-33	-6	-13	-12	-29
Changes in net reserves	0	-4	-5	-3	8
Memo:					
Reserves excluding gold *(mill. US$)*	9	17	31	36	..
Reserves including gold *(mill. US$)*	9	17	31	36	..
Conversion rate *(local/US$)*	7.1	5.3	5.1	5.2	5.2



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	62.3	57.2	54.0	47.5	55.1
IMF credit/exports	0.0	0.0	0.0	0.0	0.0
Short-term debt/exports	20.2	17.7	12.5	8.6	8.1
Total debt service/exports	7.9	8.9	7.3	6.3	4.8
GDP ratios					
Long-term debt/GDP	43.8	39.9	34.4	31.1	36.2
IMF credit/GDP	0.0	0.0	0.0	0.0	0.0
Short-term debt/GDP	14.2	12.3	7.9	5.6	5.3
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	21.1	18.9	17.1	15.7	13.8
Official creditors/long-term	78.9	81.1	83.0	84.3	86.3



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Sierra Leone

Sierra Leone is endowed with substantial mineral wealth, a varied agricultural resource base with good potential for raising yields, and rich fisheries. Agriculture employs most of the population in low-productivity, labor-intensive farming. Rice, the staple food, is grown by more than 80 percent of farmers but has been imported in large quantities since the late 1970s. Coffee, cocoa, and fish are the major agricultural exports. The mining sector comprises a capital-intensive enclave and substantial small-scale alluvial operations. It accounts for 10 percent of GDP and is the most important source of foreign exchange earnings. Services account for about 40 percent of GDP.

Sierra Leone's population of 4.4 million is growing at 2.6 percent a year. Per capita income was $150 in 1993, and Sierra Leone is classified as a least-developed country by the United Nations. Over two-thirds of the population live in absolute poverty. Rural life is at a subsistence level. Infant mortality of 143 per 1,000 live births is one of the highest in the world, while other key indicators such as life expectancy of 42 years and primary school enrollment are among the lowest. The adult illiteracy rate is estimated at 79 percent. The quality of Sierra Leone's civil service has declined over the past decade in part because of a lack of incentives for qualified staff at the senior level.

Sierra Leone's economic infrastructure deteriorated rapidly during the 1980s. Rural feeder roads are in a state of collapse; trunk roads are in poor condition. A severely deteriorated power generation system has forced households and firms to operate private power generators, affecting economic activity. Only about 30 percent of the rural population has access to safe drinking water.

During the first decade after independence in 1961 Sierra Leone's economy grew at nearly 4 percent a year. The fiscal and foreign exchange position was healthy; inflation was low. The first oil shock notwithstanding, economic growth averaged over 3 percent in the first half of the 1970s. GDP growth slowed to about 1 percent a year over 1975-80, mainly because of falling incomes from the mining sector. During the 1980s the economic situation continued to deteriorate. Budgetary revenues fell sharply, from 16 percent of GDP in fiscal 1981 to only 5 percent in fiscal 1986, as reductions in imports and official diamond sales reduced the tax base and increasing indiscipline in public-sector management eroded collection efficiency. Major cuts in capital expenditures followed. Investments in new social and physical infrastructure and maintenance virtually ceased, causing rapid decay in facilities. Inflation accelerated, peaking at close to 170 percent in fiscal 1987.

Against this background and with foreign exchange controls, a rapidly expanding parallel market in foreign exchange and trade emerged. Because of the overvalued official exchange rate, official diamond and gold exports fell sharply. Recorded imports also fell sharply, reflecting shortages of foreign exchange. With official foreign exchange reserves virtually exhausted and the inflow of foreign capital falling to very modest levels, the balance of payments deficit was financed mainly by the accumulation of arrears. Confronted with this deterioration, the government negotiated a standby arrangement with the IMF in November 1986, supplemented by support from a Structural Adjustment Facility; these were suspended in March 1987 because of expenditure overruns and excessive credit creation.

Faced with an increasingly difficult economic situation, the government took measures in early 1989 to stabilize the economy and address structural bottlenecks and has since liberalized the exchange rate and trade, decontrolled prices and interest rates, strengthened revenue collection and expenditure controls, and revamped mining and fishery policies. It has also begun rehabilitating infrastructure and revitalizing social services.

Since April 1991 the government has also had to address severe security problems initiated by incursions deep into the economically important eastern and southern parts of the country by rebels based in Liberia. Since then, the security situation has shifted character, now taking predominantly the form of scattered banditry attacks that have spread beyond those two regions. The government took major steps at the end of December 1994 to upgrade its security forces and has offered to negotiate with one known rebel group.

Recent Economic Developments

The pace of economic activity has remained sluggish, largely because of the impact of the rebel conflict on

mining and agricultural activities. Real GDP grew 1.5 percent in 1993, and 1994 GDP growth is estimated at about 3 percent, mainly as a result of good harvest and reviving trading activities. The low level of economic activity has curtailed import demand, and the current account deficit (excluding official transfers) narrowed from 12.8 percent of GDP in 1992 to 12.5 percent in 1993 and about 12.2 percent in 1994. Coffee and cocoa exports have also suffered as the security situation affected production. A large proportion of diamond and gold exports continue to be traded in the parallel market. The weak demand for foreign exchange has enabled the central bank to step up its foreign exchange purchases from the commercial banks. As a result, gross reserves at the end of 1994 are estimated to have risen to the equivalent of over three months of imports, compared with only three weeks of imports in April 1992.

Structural Adjustment Program

Despite the difficulties caused by the security situation, Sierra Leone has made satisfactory progress in implementing its structural adjustment program. At the first consultative group meeting for Sierra Leone in March 1994, donors commended the government's progress in implementing a courageous reform program under difficult domestic and external conditions.

Sierra Leone has maintained a market-determined exchange system since April 1990. Foreign exchange bureaus have been established. The operation of the exchange market has improved substantially, and the private sector is now handling a larger portion of total foreign transactions. The exchange rate in the commercial bank market has been relatively stable since May 1992; the differential between commercial bank and parallel market exchange rates is now less than 5 percent. The real effective exchange rate has depreciated by over one-third since the leone began floating in April 1990.

Trade reform has focused on removing import and export licensing requirements (except for gold and diamonds) and all quantitative restrictions on imports, and the abolition of public-enterprise trading monopolies. Duty rates on imported goods were rationalized in 1992 and 1993 to improve administration and compliance by importers and ensure a more development-focused tariff structure. The 1983 investment code has been repealed and the investment incentive framework incorporated into the tax and customs laws. The Sierra Leone Export Development and Investment Corporation was established in January 1994 to promote exports and investment across all sectors, and an export processing zone has been established starting with the textile industry. The government has also simplified its export regulatory procedures.

The maintenance of strict fiscal discipline remains the key to stabilizing the economy. As a result of the government's efforts to improve fiscal management, total revenues rose from 9.2 percent of GDP in fiscal 1989 to 14 percent in fiscal 1994. Recurrent expenditures, however, increased modestly from 15.5 percent of GDP in fiscal 1989 to about 16 percent of GDP in fiscal 1994. The overall budget deficit contracted from 9 percent of GDP in fiscal 1989 to about 6.3 percent of GDP in fiscal 1994 despite an increase in war-related expenditures. However, because of the impact of the security situation on economic activity, major revenue shortfalls are anticipated in fiscal 1995. At the same time, a rise in defense expenditures to deal with the security situation has put additional strains on the budget.

Monetary policy since the beginning of the reform program has been directed toward reducing money supply growth to levels consistent with the inflation objectives and ensuring that sufficient bank credit is made available to fuel the recovery of private-sector activity. The deceleration in the rate of growth of broad money, mainly as a result of improved government fiscal operations, contributed to the slowdown in inflation from 115 percent in 1991 to less than 20 percent in fiscal 1994. Lending rates were decontrolled in April 1990. Nominal interest rates have continued to decline. The depressed private sector demand for credit and lack of availability of alternative financial instruments have resulted in the real yield on treasury bills, after being positive since June 1992, falling to a negative 10 percent at the end of September 1994. Commercial bank lending rates have, however, remained positive in real terms. The Bank of Sierra Leone exercises monetary control through open-market operations through weekly auctions of treasury bills.

The government has begun a thorough review of the financial sector. Following a comprehensive management audit of the Bank of Sierra Leone the government initiated an institutional development program in early 1994 aimed at strengthening its role as a central bank, focusing on promoting monetary stability and a sound financial structure. The central bank also initiated in late 1993 a program to restructure the commercial banks and bolster their financial positions. Pending passage of a new banking act, the central bank has developed and issued prudential bank lending and capital adequacy guidelines to maintain the soundness of the banking system.

The government has initiated a comprehensive civil service reform program aimed at restoring civil service efficiency and capacity for delivering essential public services. Between July 1991 and December 1994 civil service employment was reduced by more than 32,000 (44 percent), mainly through the retrenchment of redundant daily workers and temporary staff and removing "ghost workers" from the payroll.

All public enterprises are now subject to taxes and duties and are allowed to adjust their tariffs and prices in line with costs. The government has divested its interest in the National Petroleum (distribution) Company, the Sierra Leone Petroleum Refining Company, and the Bennimix Baby Food Company. The Public Enterprise Reform and Divestiture Commission has also tendered and renewed lease contracts for three government-owned hotels, which has resulted in significant additional revenue to the government. The sale process for two smaller hotels has commenced, and plans for divestment and liquidation other public enterprises are being implemented.

Sierra Leone's broad development objectives are to stabilize the economy and create a macroeconomic and sectoral environment conducive to sustained private-sector-led growth and poverty reduction. While it is committed to the policies needed to achieve these objectives, the government's capacity to develop and implement well-defined development strategies remains extremely limited and has been further complicated by the unsettled security situation.

The government's strategy to combat Sierra Leone's widespread poverty joins policies that promote labor-intensive growth, especially macroeconomic policies supported by the adjustment reform program and sectoral policies with public expenditure policies and rehabilitation of institutions that over time will improve access to basic education, health care, and other social services. A Social Action and Poverty Alleviation Unit has been set up to screen and monitor projects carried out by NGOs to improve the living standards of the poor people.

The government's human resource development strategy focuses on improving the quality of education with particular emphasis on basic education, substantially reducing the illiteracy rate (with special attention paid to female illiteracy), increasing the enrollment ratio in primary education, and making relatively low-cost preventive and basic curative health care available throughout the country. The government has developed a National Education Action Plan and a National Health Action Plan. Strengthening planning and implementation capacity of the Health and Education Departments is a priority. Budget allocations for the social services will be increased by at least 5 percent annually in real terms over their fiscal 1994 levels in the next few years.

The government is articulating sectoral strategies to provide a basis for clearly defined functions and work programs for departments and units, and has begun to recruit qualified candidates under donor-funded projects from both within the country and among Sierra Leoneans living abroad. Budgetary allocations for materials and supplies will be brought to adequate levels. Promotions will be based on merit rather than mainly on the length of service or political connection.

Faced with acute shortages of skilled manpower, the government has taken steps to shift the responsibility for providing some services to the private sector. A semi-autonomous Road Authority, funded by taxes on gasoline and diesel sales, has been established to manage the entire periodic and routine road maintenance program through contracting to the private sector. Provision of primary health care services and the management of elementary schools have been increasingly undertaken by NGOs, local communities, and other organizations.

The fisheries sector has considerable potential for growth in the medium term, but care must be taken to monitor yields to protect against overfishing. The Fisheries Act and regulations were revised in September 1994 to provide the basis for a durable fisheries management regime. The government has tendered a management contract for a fisheries control and surveillance system for a period of two years.

The mining sector has a critical role in Sierra Leone's long-term economic development, and a revised Mining Act, introduced in early 1994, provides the framework for mining investment, taxation, profit repatriation, and the environmental treatment of mining activities in a manner that guards against land degradation, ensures sound mining practices, and avoids distortive fiscal and incentive systems for the sector. A combination of conducive legal and regulatory frameworks and improvements in the security situation, including removal of military personnel from alluvial diamond mining areas, is the key to improvement in alluvial diamond mining production and exports by the private sector.

Women are predominant among the poor in Sierra Leone and severely disadvantaged. They are more likely than men to be illiterate, unskilled, and malnourished; their productivity is further hampered by limited access to credit and productive assets. In the agriculture sector, women represent about 55 percent of the labor force and in urban areas, especially in the Western Area, they control a large share of trade and distribution activities, and some have secure incomes. Limited access to health facilities, especially for rural women, is being addressed through the Primary Health Care Program and the National Health Policy. The government, women's groups, and NGOs are also active in disseminating family planning education and conducting awareness programs.

Environment

Preliminary findings from an initial environmental assessment point to significant problems across all sectors. Salient issues include water access and sanitation, land degradation from large-scale and artisanal mining and agricultural practices detrimental to sustainable agriculture, deforestation, forest degradation and loss of bio-diversity, and marine fishing in excess of maximum

sustainable yield. The government has prepared a National Environmental Action Plan to strengthen the framework for environmental conservation and sound natural resource management.

External Debt

Sierra Leone's external debt is estimated at about $1.4 billion at end-1994. Sierra Leone's debt service obligations in 1994 amounted to about $90 million, about 76 percent of merchandise exports, of which $25 million represented commercial debt service. The Paris Club offered Sierra Leone debt relief on "enhanced Toronto" terms in November 1992 and June 1994. Payment arrears, largely to commercial creditors, are estimated at $430 million, including $124 million in interest arrears. Sierra Leone expects to clear these arrears with the aid of donors through an IDA-financed commercial debt buyback operation planned for the first half of 1995.

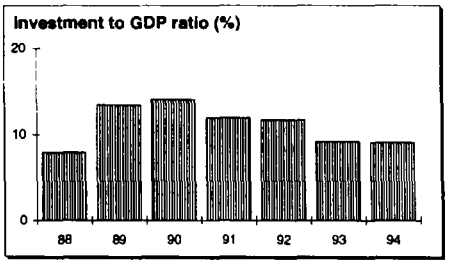
Sierra Leone

Population mid-1993 *(millions)* **4.5**
GNP per capita 1993 *(US$)* **150**

Income group: **Low**
Indebtedness level: **Severely Indebted**

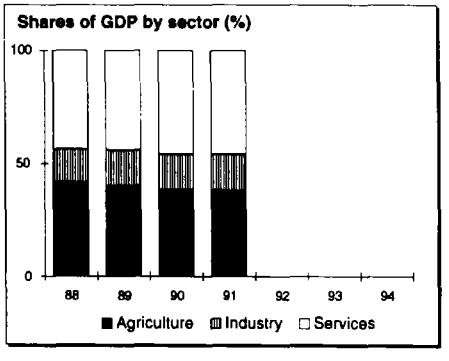
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	10.0	14.0	11.7	9.2	9.1
Exports of goods and nfs/GDP	9.7	19.7	24.7	22.4	17.4
Gross domestic savings/GDP	9.8	8.7	10.5	5.1	3.1
Gross national savings/GDP	6.3	-0.3	-3.1	-8.2	-8.0
Current account balance/GDP	-6.5	-15.7	-14.7	-17.4	-17.0
Interest payments/GDP	0.2	0.4	1.5	0.2	1.2
Total debt/GDP	55.0	134.8	181.7	189.6	172.0
Total debt/exports	495.7	745.1	734.0	839.7	982.2



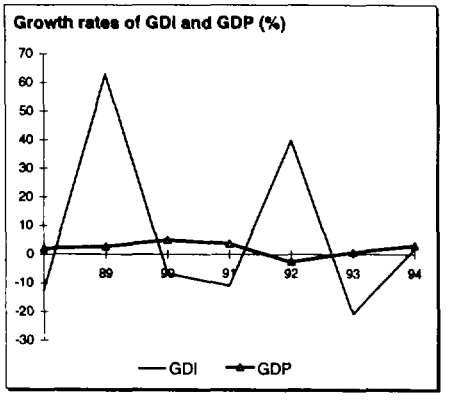
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	44.5	38.3	..	..	..
Industry	12.8	15.9	..	..	..
Manufacturing	3.6	6.8	..	..	..
Services	42.7	45.7	..	..	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	2.9	*-6.6*	-17.9	2.7	..
Industry	3.1	*8.9*	15.4	-6.7	..
Manufacturing	-5.0	..	..	..	..
Services	1.6	*0.3*	0.5	0.9	..
GDP	2.8	0.7	-2.7	0.7	3.0



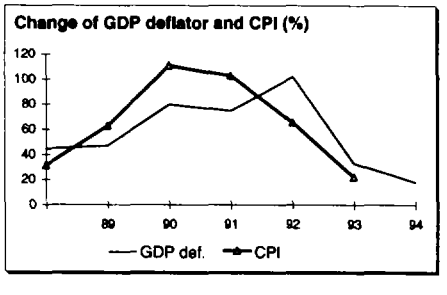
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	83.0	84.7	80.2	83.7	84.4
General government consumption	7.2	6.6	9.2	11.2	12.5
Gross domestic investment	10.0	14.0	11.7	9.2	9.1
Exports of goods and nfs	9.7	19.7	24.7	22.4	17.4
Imports of goods and nfs	9.8	25.1	25.8	26.5	23.4
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	4.5	1.3	-5.0	5.1	4.0
General government consumption	0.2	-7.9	-48.1	31.6	2.7
Gross domestic investment	0.0	1.1	39.8	-20.8	1.9
Exports of goods and nfs	-5.1	5.7	43.5	-9.2	-5.8
Imports of goods and nfs	1.6	5.0	34.5	0.5	-0.3
Gross national product	1.9	0.2	-2.3	1.4	3.3
Gross national income	2.0	-0.3	-3.5	1.1	2.5



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	76.6	111.0	65.5	22.2	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	85.7	79.7	102.0	32.9	18.0
Government finance					
(% of GDP)					
Current budget balance	-8.6	-8.2	-4.0	-2.3	..
Overall surplus/deficit	..	..	..	..	..



Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

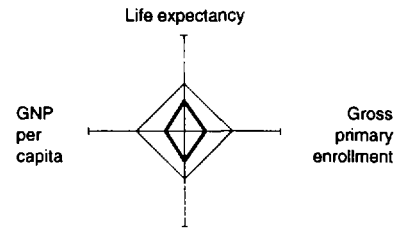
Sierra Leone

POVERTY and SOCIAL

	1985-90	1990-94
(annual growth rates)		
Population	2.5	*2.5*
Labor force	1.2	1.5

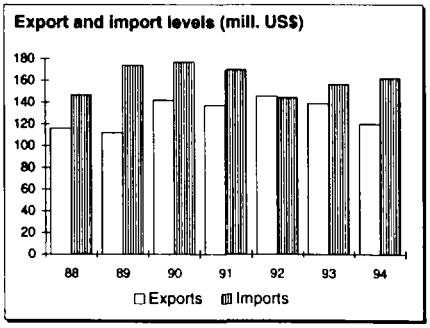
	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	39.4
Infant mortality *(per 1,000 live births)*	163.6
Child malnutrition *(% of children under 5)*	..
Access to safe water *(% of population)*	43.0
Energy consumption per capita *(kg oil equivalent)*	71.6
Illiteracy *(% of population age 15+)*	79.3
Gross primary enrollment *(% of school-age population)*	48.0

Development diamond*



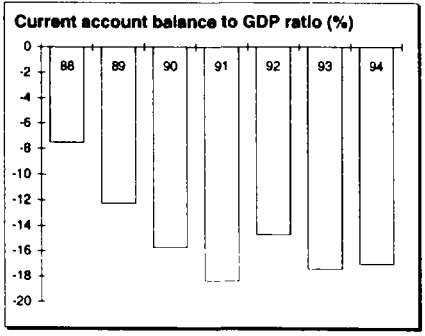
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	139	142	146	139	120
Diamonds	30	21	35	23	24
Cocoa	25	8	2	2	2
Manufactures	..	..	..	..	..
Total imports (cif)	169	177	145	156	162
Food	56	58	57	66	69
Fuel and energy	26	27	19	25	20
Capital goods	42	51	29	31	35
Export price index *(1987=100)*	109	125	113	120	109
Import price index *(1987=100)*	185	205	183	202	204
Terms of trade *(1987=100)*	59	61	62	59	53
Openness of economy *(trade/GDP,%)*	19	45	50	49	41



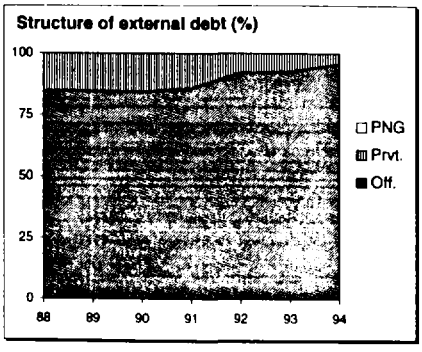
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	146	155	172	164	144
Imports of goods and nfs	182	210	180	194	194
Resource balance	-36	-55	-8	-30	-50
Net factor income	-51	-84	-95	-98	-92
Net current transfers	2	5	0	0	0
Current account balance					
Before official transfers	-85	-135	-103	-128	-142
After official transfers	-68	-93	-66	-89	-127
Long-term capital inflow	3	46	28	221	120
Total other items (net)	55	51	53	-114	-111
Changes in net reserves	10	-4	-15	-18	118
Memo:					
Reserves excluding gold *(mill. US$)*	11	5	21	33	50
Reserves including gold *(mill. US$)*	11	5	21	33	50
Conversion rate *(local/US$)*	3.6	96.7	424.0	539.9	576.2



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	265.7	389.9	394.6	440.6	585.6
IMF credit/exports	69.1	69.9	53.4	50.7	55.5
Short-term debt/exports	160.8	285.3	286.0	348.5	341.1
Total debt service/exports	13.7	10.1	20.3	11.9	20.5
GDP ratios					
Long-term debt/GDP	29.5	70.5	97.7	99.5	102.6
IMF credit/GDP	7.7	12.6	13.2	11.4	9.7
Short-term debt/GDP	17.8	51.6	70.8	78.7	59.7
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	20.6	15.7	7.8	7.2	4.3
Official creditors/long-term	79.4	84.3	92.2	92.8	95.7



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Tanzania

With an estimated GNP per capita of about $90 in 1993, Tanzania is one of the poorest countries of the world — though a recent survey of household expenditures indicates this official estimate of GNP may be understated by as much as 50 percent. Covering an area of 945,000 square kilometers just south of the equator, it has a population of about 28 million growing at 3 percent a year. The economy is heavily dependent on agriculture (over 50 percent of GDP), and its diverse ecology supports cultivation of coffee, cotton, tea, cashew nuts, sisal, maize, rice, wheat, cassava, and tobacco. The manufacturing sector is small, and the mining sector has good potential but is relatively undeveloped. Tourism is one of Tanzania's dynamic sectors, with significant growth in recent years. The large service sector is increasingly an important source of employment.

After independence in 1961 Tanzania's economy, burdened with a legacy of extensive poverty, dependence on subsistence agriculture, a small industrial base, and a limited number of educated and trained personnel, managed to grow at about 6 percent a year through the late 1960s. In 1967 the government's Arusha Declaration called for the establishment of a socialist economy. Over the next two decades, the government nationalized many commercial and financial firms, imposed price controls and restrictive marketing policies, granted exclusive marketing and processing rights over agricultural commodities to cooperatives and marketing boards, invested in large and inefficient industrial parastatals, and instituted credit and interest rate controls.

Despite progress in forging a unified nation and improving social conditions, these policies greatly inhibited private-sector development and encouraged macroeconomic instability. This, combined with successive droughts, a costly war with Uganda, the breakup of the East African Community, and a fall in the terms of trade, led to a protracted decline in output. By the mid-1980s real per capita incomes were falling, industrial output declined sharply, and high rates of monetary expansion increased inflation to over 30 percent. The shilling became significantly overvalued, and payment arrears on external debt began to mount. Social progress achieved in the 1970s began to be reversed, and a lack of revenues severely hampered infrastructure maintenance.

Economic Reform

In 1986 the government embarked on a reform program to dismantle the system of pervasive economic controls and encourage more active participation of the private sector. The overvalued exchange rate was progressively depreciated, culminating with the unification of the exchange system on the basis of the market in 1993; almost all administrative restrictions on exports and surrender requirements for traditional export goods were eliminated and import licenses abolished for most goods; budget deficits were reduced and monetary control improved; interest rates were liberalized and the entry of private banks encouraged; most price controls and restrictions on domestic marketing arrangements were eliminated; investments in most sectors were opened to private-sector participation, and the marketing of food crops was liberalized. Programs were launched to rehabilitate key infrastructure, particularly roads, railways, and ports. The economy responded well to the reform program and the accompanying increased availability of external resources. Official estimates indicate that both GDP and exports grew by more than 4 percent a year over 1987-94. Because the official data do not reflect informal activities, it is likely that these estimates understate the increase in output, particularly the rapid growth in small-scale industrial activities, increases in agricultural production, and growth in the volume of exports.

Despite the progress of reforms, the economy continues to face considerable difficulties. A gradualist approach to adjustment has meant that reforms are not yet completed. Cooperatives continue to dominate the processing of export crops, excessive regulations throttle private sector operations, financial services still are provided largely by inefficient public-sector banks, and inefficient (and often bankrupt) parastatals continue to play a major role in the industrial sector.

The economy does not generate sufficient savings to sustain development, and large inflows of external resources are required. With approximately 45 percent of

the population under the age of 15, output growth may not be sufficient to create the employment necessary to absorb the expected large increases to the labor force, much less to raise significantly the well-being of most Tanzanians. Moreover, the public sector lacks the capacity to cope with the challenges posed by extensive poverty, a rapid increase in population, a growing menace from AIDS, deteriorating essential infrastructure, and the disastrous state of most public services. Finally, the recent political turmoil in neighboring Rwanda has imposed a major burden on the Kagera region, where the economy and surrounding environment have been damaged by a sudden influx of half a million refugees.

Recent Political Developments

After three decades of rule by one party, Tanzania has embarked on a process of political reform. Multiparty elections at the local level were successfully held in late 1994, and presidential and parliamentary elections are scheduled for October 1995. Political liberalization has been a new and, in some respects, difficult experience, and it is not clear what impact the elections and potentially increasing political tensions will have on the implementation of economic reforms.

Regional Economic Integration

Over the past two years, Tanzania, Kenya, and Uganda have resumed active discussions toward reviving East African cooperation in trade, transport and communications, finance, and investment, as well as regional immigration and security. In November 1994 the three heads of state issued a communiqué indicating the establishment of a secretariat in Arusha to facilitate East African cooperation and formulate steps toward strengthening regional institutions. The communiqué also indicated the intention of the three governments to implement the provisions of the cross-border initiative, including steps to harmonize tariff rates and simplify customs procedures and consider the possibility of forming a customs union. In addition, the Ministers of Health in Kenya, Tanzania, and Uganda have consulted for two years on joint concerns in health. They have recently emphasized regional elements of communicable disease control (e.g., malaria), joint financing of regional tertiary services, and health insurance issues.

Tanzania has also endorsed the regional Common Market for Eastern and Southern Africa initiative, which effectively replaces the Preferential Trade Area arrangement.

Recent Economic Performance

Macroeconomic management deteriorated significantly during the past two years. After a broadly balanced position in fiscal years 1990-92, the fiscal deficit (after grants) shot up to 9 percent of GDP in fiscal 1993, and fiscal performance continued to deteriorate during the first half of fiscal 1994. This weakened fiscal position reflected widespread customs duty exemptions, inefficient tax administration, and a failure to control expenditures. A severe drought adversely affected electrical power generation, which lowered industrial production, which contributed to the fall in tax revenues. Aid disbursements were less than expected because of slow implementation of projects and of the reform program.

In January 1994 the government made a determined effort to reestablish macroeconomic stability. It instituted a cash system for controlling expenditures: no checks were to be issued without sufficient funds, and the public-sector banks were instructed not to honor checks issued on accounts that did not contain sufficient funds. This policy, in conjunction with revenue measures, improved the fiscal balance through June 1994. During the first half of fiscal 1995, however, failure to control tax exemptions, evasion of import taxes, and a huge check float from the previous fiscal year led to a further increase in money growth. As a result, the growth of the money supply and inflation have both remained above 30 percent. Since December 1994 the government has taken steps to increase revenue collection and ensure more effective administration of the tax system; these actions have shown some initial success.

Tanzania's central development objective is to reduce poverty through economic growth by stimulating the private sector's capacity to produce and deliver goods and services, while limiting the role of the public sector and strengthening its capacity to manage the economy and provide essential services.

The government's program to reduce poverty is based on three pillars: accelerating labor-absorbing growth, increasing the level and efficiency of social sector expenditures, and targeting interventions to assist the poorest segments of the population. Liberalization of the agriculture sector has enhanced agricultural growth and benefited the rural poor. A food-security program and operation of a strategic grain reserve are designed to forestall food price spikes and alleviate temporary shortages affecting areas of the country and vulnerable groups. The public-sector reform program includes a safety net for low-income workers, including a retrenchment compensation package and retraining opportunities for the civil service. The government has developed a poverty profile that will enable it to strengthen policy formulation and target its programs effectively by groups of people and regions.

The medium-term goals of the government's macroeconomic management program aim to raise the annual rate of economic growth from its present level of about 4 percent to above 6 percent. Robust agricultural growth

is projected to combine with faster growth from industry, mining, and services, particularly tourism. The government remains fully committed to the newly liberalized exchange and trade regime and to reducing the current account deficit while maintaining foreign reserves at a level equivalent to at least three months of imports. The principal objective of fiscal policy will be reestablishing macroeconomic stability through greater revenue mobilization (including the collection of tax arrears) and strict expenditure control. Monetary policy will be aimed at reducing inflation from over 30 percent to rates prevailing in Tanzania's major trading partner economies — less than 5 percent — by ensuring a tight liquidity position in the commercial banks, maintaining positive rates of interest in real terms, and making greater use of market-based policies.

A comprehensive financial sector reform program is under way and involves the restructuring and commercialization of the public-sector banks with a view to ultimately privatizing them. In particular, based on the results of a loan portfolio review and a diagnostic evaluation, the government plans to finalize and begin implementation of its medium-term restructuring program for the National Bank of Commerce, which will include divesting one or more branch networks to the private sector and establishing a joint venture with a private financial institution to handle the bank's international business.

The government is using a rolling plan and forward budget process to focus scarce government resources in key areas and identify a core investment program to aid in allocating resources to priority projects and rationalizing the public investment portfolio.

The government's civil service reform covers four major elements: personnel control, reducing the size of the civil service, pay reform, and a comprehensive rationalization process on the basis of organizational and efficiency reviews of each ministry. Efforts to improve personnel control include the imposition of a ceiling on the number of all civil servants and implementation of a more effective personnel control system. The government also plans a new salary structure in which most in-kind benefits will be monetized and monetary allowances will be included in basic wages.

The parastatal sector reform program aims to improve the operational efficiency of enterprises and to reduce fiscal pressures. The program is designed to sell, lease, or liquidate commercial parastatals, promote wide participation by nationals in the ownership and management of businesses, and improve the efficiency of enterprises and reduce fiscal pressures by implementing a hard budget constraint, under which commercial parastatals receive no financial support from the budget or other public-sector entities.

Improvements in the environment for private-sector activities and promotion of local and foreign private investment remain key elements of the government's reform program. Apart from pursuing macroeconomic and sectoral policies and investments — including substantial improvements to infrastructure — to create an environment conducive to private investment, the government plans to open all sectors (outside a negative list) to private investment and streamline the approval procedures to reduce the number of steps necessary to start a business. The government also plans to review its system of investment incentives, and consider alternative means of providing incentives that would be more transparent and automatic, and more appealing to investors.

The focus of agricultural policy is on enhancing smallholder productivity within an environmentally sustainable production system. Priority will be given to improving the capability of the agricultural research system and disseminating improved technology through agricultural extension. Public funding will be used to complement private activities in both these services, mainly to ensure coverage of maize and other food crops where private funding is unlikely to be available and where the effect on rural poverty reduction is greatest. In recent years, the markets for agricultural produce and inputs to production have been liberalized. Exporters of coffee, cotton, cashews, and tea receive the full market value for their produce, and trade in maize and food crops is carried out almost exclusively by the private sector. The private sector is taking an ever more important role in the agricultural inputs industry, supplying seeds, fertilizer, and veterinary inputs.

The tourism and mining sectors have potential for rapid growth and have exhibited dynamism under the reform program. The government intends to facilitate development of tourist attractions by rehabilitating and building access roads, water supply, electricity, airstrips, and telecommunications, where possible relying on private sector initiatives. For mining, the government will continue to adopt policies aimed at providing an attractive enabling environment for investors. For both these sectors, environmental concerns will inform and guide all policies.

The government has recently formulated a social sector strategy that recognizes the priority status of the social sectors in the government's agenda and the paramount role of households in making investments in human capital. The agenda also focuses government resources on areas with high social payoffs, benefits to the poor, and greater intersectoral linkages; provides for improved accountability to communities and households; and emphasizes measuring progress through outcomes rather than expansion of facilities.

The government continues to emphasize infrastructure maintenance and rehabilitation while undertaking selected new investments in infrastructure and energy. The second phase of its Integrated Roads Program is focusing on strengthening transport administration and management of the road network. State-owned transport operations will be privatized where possible. Policies are being adopted to address the poor state of urban services, giving greater voice to communities and local administrations. In the energy sector, the government strategy aims at exploiting hydroelectric sources and developing other indigenous energy resources, such as natural gas, coal, and petroleum, in collaboration with the private sector. The government is reviewing the feasibility of privatizing all or part of the power sector and introducing competition in marketing and distributing petroleum products.

Environment

A recently completed national environmental action plan focused on the need for priority action in six key areas: land degradation, water supply, environmental pollution, marine and freshwater resource management, habitat conservation and loss of biological diversity, and deforestation. The government intends to implement a program that will include adoption of a national environment policy, revising the legislative framework to encourage local participation in environmental management and sustainable natural resource use, developing ways of assessing the environmental impact of future initiatives, strengthening environmental education and public awareness programs, and ensuring that prices for natural resources reflect their true cost.

Medium-Term Prospects

Tanzania is expected, if the economic reform program is vigorously implemented, to achieve considerable improvements in its external position over the medium term. With strong export performance and continuation of favorable terms of trade, the current account deficit (after grants) is projected to fall from 13 percent of GDP in fiscal 1994 to about 7 percent of GDP in fiscal 2000. Tanzania's excessive dependence on donor funds should decline, and an increasing percentage of foreign exchange requirements is expected to be met from Tanzania's own resources. However, the availability of foreign resources in the medium term remains a very important concern, both to finance imports and to service payments on existing debt. It is anticipated that private capital inflows will increasingly substitute for declining donor inflows as the reform program establishes a competitive and sound financial system, liberalizes the trade and exchange regimes, privatizes or liquidates most commercial parastatals, improves the regulatory climate for private investment, and achieves macroeconomic stability.

External Debt

Tanzania's debt overhang is considerable (at over 250 percent of GDP), and the debt service burden, while high, remains manageable only because Tanzania services only multilateral debt and its rescheduled obligations under Paris Club agreements, with most of the remaining official and commercial debt in arrears. Tanzania has had four Paris Club reschedulings, and it is anticipated that it will soon request a further rescheduling of debt service owed to the Paris Club.

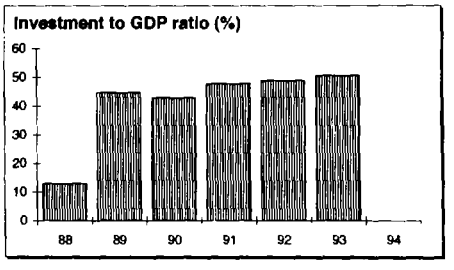
Tanzania

Population mid-1993 *(millions)* **28.0**
GNP per capita 1993 *(US$)* **90**

Income group: **Low**
Indebtedness level: **Severely indebted**

KEY RATIOS

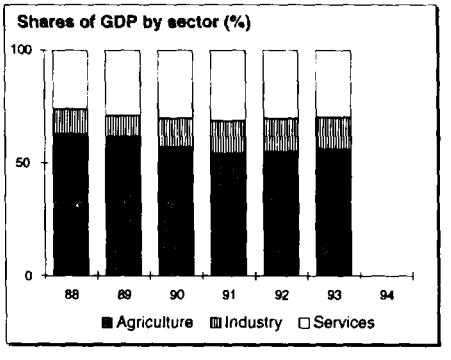
	1985	1990	1992	1993	1994
Gross domestic investment/GDP	17.7	43.0	48.9	50.7	..
Exports of goods and nfs/GDP	6.3	21.0	22.4	31.3	36.2
Gross domestic savings/GDP	8.4	7.2	2.0	9.8	..
Gross national savings/GDP	9.2	17.0	12.5	22.0	..
Current account balance/GDP	-7.5	-29.5	-33.7	-40.0	..
Interest payments/GDP	0.6	2.6	2.9	2.8	3.1
Total debt/GDP	61.3	265.6	284.0	317.0	303.0
Total debt/exports	951.7	1,315.0	1,275.1	1,218.8	..



GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	56.7	56.9	54.9	56.0	..
Industry	9.3	13.0	15.0	14.4	..
Manufacturing	6.2	4.5	5.4	4.9	..
Services	34.1	30.1	30.1	29.6	..

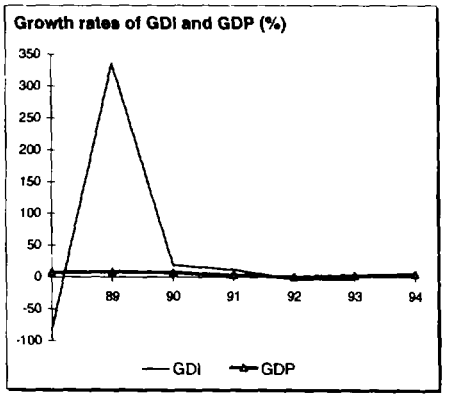
	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Agriculture	5.0	*5.9*	3.5	5.7	..
Industry	6.4	*2.4*	4.4	-3.3	..
Manufacturing	3.6	*4.9*	2.1	2.1	..
Services	2.8	*2.7*	3.2	3.9	..
GDP	6.7	2.3	0.0	2.6	4.5



GDP: EXPENDITURE

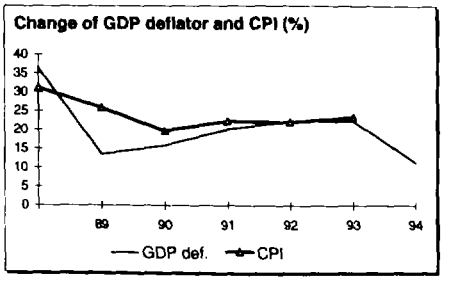
	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	76.2	82.3	87.6	81.6	..
General government consumption	15.4	10.4	10.5	8.5	..
Gross domestic investment	17.7	43.0	48.9	50.7	..
Exports of goods and nfs	6.3	21.0	22.4	31.3	36.2
Imports of goods and nfs	15.6	56.7	69.4	72.2	81.6

	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Private consumption	..	..	..	..	..
General government consumption	..	..	..	..	..
Gross domestic investment	1.1	*0.9*	-3.5	-3.2	..
Exports of goods and nfs	..	..	..	..	..
Imports of goods and nfs	..	..	..	..	..
Gross national product	5.0	2.6	-0.8	2.3	5.7
Gross national income	..	..	..	..	..



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	33.3	19.7	22.1	23.5	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	34.0	15.9	22.3	22.5	11.3
Government finance[a]					
(% of GDP)					
Current budget balance	-1.9	-1.8	1.5	-7.5	-4.7
Overall surplus/deficit	-6.4	-6.3	-2.8	-14.3	-11.2



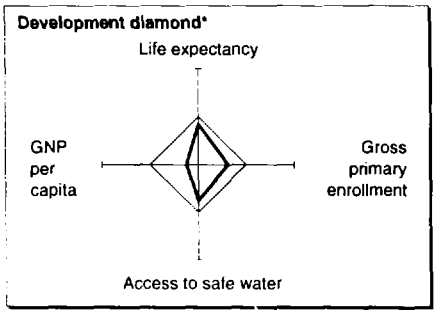
Note: Economic data refer to mainland Tanzania only. 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Tanzania

POVERTY and SOCIAL

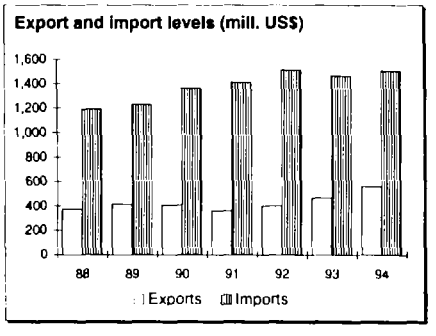
	1985-90	1990-94
(annual growth rates)		
Population	3.2	*3.0*
Labor force	2.9	3.0

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	51.9
Infant mortality *(per 1,000 live births)*	84.2
Child malnutrition *(% of children under 5)*	28.0
Access to safe water *(% of population)*	52.1
Energy consumption per capita *(kg oil equivalent)*	34.7
Illiteracy *(% of population age 15+)*	..
Gross primary enrollment *(% of school-age population)*	68.0



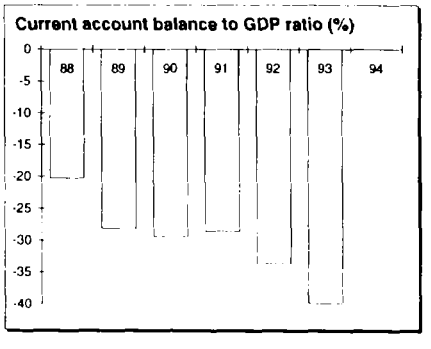
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	326	408	401	466	562
Coffee	119	85	60	96	115
Cotton	27	75	98	78	105
Manufactures	33	97	64	52	77
Total imports (cif)	999	1,364	1,513	1,465	1,505
Food	78	63	49	94	128
Fuel and energy	224	195	185	167	149
Capital goods	434	599	701	633	657
Export price index *(1987=100)*	86	117	128	143	..
Import price index *(1987=100)*	103	105	107	108	..
Terms of trade *(1987=100)*	84	111	120	132	..
Openness of economy *(trade/GDP,%)*	22	78	92	103	118



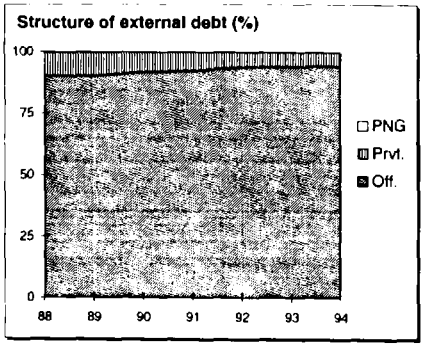
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	445	520	567	611	..
Imports of goods and nfs	1,016	1,557	1,701	1,851	..
Resource balance	-571	-1,037	-1,134	-1,239	..
Net factor income	-93	-188	-189	-172	..
Net current transfers	148	461	456	463	..
Current account balance					
Before official transfers	-516	-764	-866	-948	..
After official transfers	-347	-234	-297	-366	..
Long-term capital inflow	-46	37	146	-167	..
Total other items (net)	408	253	253	410	..
Changes in net reserves	-14	-57	-102	123	-138
Memo:					
Reserves excluding gold *(mill. US$)*	16	193	327	203	327
Reserves including gold *(mill. US$)*	16	193	327	203	327
Conversion rate *(local/US$)*	17.5	195.1	297.7	405.3	477.6



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	772.5	1,206.0	1,150.6	1,093.0	..
IMF credit/exports	13.0	26.7	38.5	34.8	..
Short-term debt/exports	166.2	82.3	86.0	91.0	..
Total debt service/exports	47.5	44.7	53.0	25.1	..
GDP ratios					
Long-term debt/GDP	49.8	243.6	256.3	284.3	289.8
IMF credit/GDP	0.8	5.4	8.6	9.0	8.8
Short-term debt/GDP	10.7	16.6	19.2	23.7	4.5
Long-term debt ratios					
Private nonguaranteed/long-term	0.6	0.2	0.2	0.2	0.1
Public and publicly guaranteed					
Private creditors/long-term	12.6	8.0	5.9	5.6	5.4
Official creditors/long-term	86.9	91.8	93.9	94.2	94.5



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

a. Fiscal year (July to June)

Togo

Togo is a small country of 56,800 square kilometers with a population of about 3.9 million. Located on the Gulf of Guinea, midway between Nigeria and Côte d'Ivoire, it is relatively well endowed with agricultural and mineral resources. Its economy has traditionally depended on primary production, services activities, and exports of phosphates and cotton. Agricultural production, primarily rainfed and small-scale, is concentrated in staple food crops, cotton, coffee, and cocoa and generates about 40 percent of GDP and provides the livelihood of about 75 percent of the population. Exports of coffee, cocoa, and cotton contribute about 36 percent of domestic exports.

Togo is self-sufficient in food production, although there are significant regional disparities between the wetter south and the more savanna-like north. The secondary sector, dominated by phosphate production and a robust small-scale manufacturing sector, contributes about 20 percent of GDP. The service sector makes up the remaining 40 percent of GDP and includes a vital commerce sector and a banking system, which, until recently, was relatively healthy and served the entire sub-region. A well-developed highway network linking the capital and the principal port, Lomé, with neighboring Benin, Ghana, and Burkina Faso supports transit and trade activities which, because of Togo's geographical position and to a long period of political stability, were well developed until recently. Togo's economic growth potential is significant, particularly in agriculture, regional trade and commerce, and small-scale industrial production. However, the country remains poor, with an estimated GDP per capita of only $340 in 1993.

With phosphate mining and, later, cotton as its principal source of export revenues, the Togolese economy benefited from private-sector-led growth and financial stability for a decade and a half, until the mid 1970s. Buoyed by a quadrupling of phosphate prices in late 1974, the government launched a program of growth based on increased public investment and the creation of public enterprises, including phosphate mining and cotton. In 1981/82, the country experienced a sharp decline in the international prices of its major exports and initially failed to adjust, but over 1983-89 it implemented a broad economic stabilization and adjustment program that was supported by IDA and the IMF. Major accomplishments under the program include liberalizing food-crop marketing, reforming the foreign trade regime (including eliminating export and import licensing and the state trading company's import monopoly), price liberalization, privatizing or liquidating 30 public enterprises, creating an export-processing zone, and adopting a rolling three-year investment program.

This reform effort helped Togo achieve a substantial liberalization of its economy and led to a resumption of growth to 3.4 percent a year over 1984-89 despite low export commodity prices and an appreciation of the real exchange rate. The adjustment program formed a solid basis for a more intensive reform effort that was undertaken in 1989.

Recent Economic and Political Developments

In late 1990 a political crisis brought the implementation of the adjustment program to a halt as the government came under increasing pressure to establish a multiparty system. After violent street riots and mass civil disobedience, a national conference convened in July 1991 led to the formation of a one-year transition government. While parliamentary and presidential elections were scheduled for July 1992, political violence, which forced 300,000 Togolese to seek refuge in neighboring countries, disturbed the elections calendar, led to a general strike launched by the opposition and the trade unions, and brought most economic activities to a standstill from November 1992 through August 1993, and bilateral aid was cut off in condemnation of the lack of progress in the elections. Presidential elections were held in August 1993 after international mediation, and the sitting president was reelected; legislative elections in February 1994 were won by the political opposition.

The long period of political instability and the general strike had a severe impact on Togo's economy and social conditions. Real GDP fell by more than 17 percent between 1991 and 1993, and economic transactions and businesses became increasingly informal. As civil servants' salaries were not paid for several months and investment expenditures fell short of their projections, public services and infrastructure maintenance have de-

teriorated. The north-south highway, Togo's main transport corridor for transit trade with the Sahelian landlocked countries, and the feeder roads network, have degraded markedly. Preliminary estimates indicate a significant increase in poverty and, in some areas of the country, high levels of malnutrition among women and children. Quality of, and access to, basic and preventive health and primary education services, already hampered by inappropriate budget allocations and policies before 1991, further deteriorated with the crisis, particularly in rural areas. Deterioration of social conditions is also linked to severe environment degradation.

The crisis severely affected public finances. Revenues fell by more than 51 percent during the 1992-93 period, as a result of a drastically shrunken tax base. Moreover, despite a decline in investment expenditures of about 60 percent, the overall fiscal deficit (excluding grants) widened to 14.5 percent of GDP by the end of 1993. Because of the interruption of foreign aid disbursements the deficit was partly financed through the accumulation of domestic and external payment arrears. By the end of 1993 domestic payment arrears increased by about 9 percent of GDP, with more than half of this amount in unpaid salaries and social security contributions. External payment arrears amounted to 9 percent of GDP. Despite an improvement in the trade account, which resulted from a greater contraction in imports than in exports, the drop in net foreign financing led to a sharp deterioration in the overall balance of payments. By end of 1993 reserves had fallen over 56 percent from the 1991 level.

The economic and fiscal collapse also disrupted the functioning of the parastatal and financial sectors. The parastatal sector, which still includes key economic activities such as cotton and phosphate production, and all utilities, is characterized by cross-debts and arrears. In addition, the position of commercial banks was seriously compromised by their high exposure to the phosphate company, to which they had extended short-term credit over several years, well beyond the prudential ratios set by the Central Bank for the West African States, a sharp deterioration in the quality of the private sector portfolio, and substantial government drawings on their public enterprises' deposits to finance the budget deficit. As a result of the deterioration of the banking system's financial situation, the financial sector has a reduced ability to finance a strong supply response to the devaluation and contribute to the resumption of growth.

The formation of a new government in May 1994 and, later, the establishment of the National Assembly are viewed by most observers as important steps toward restoring civil peace and opening the way to a democratic system of government in Togo. The economic adjustment program, which had come to a halt in 1993, has slowly resumed. In January 1994 the government reinforced the adjustment effort by devaluing, in cooperation with other CFA zone countries, the CFA franc by 50 percent against the French franc. After the devaluation the government prepared a three-year policy framework paper setting forth its stabilization and adjustment program. In 1994 Togo's economy shown signs of recovery, led by a strong resumption of traditional exports. Real GDP growth for 1994 is estimated to have exceeded 16 percent, reflecting a recovery of secondary and tertiary activities and the effect of the franc devaluation on traditional export crops. Also, following a 29 percent upward price adjustment in the two months following the devaluation, monthly inflation has returned to moderate levels, fiscal revenues have exceeded program targets by about 4 percent, and current expenditures are broadly in line with program targets.

Despite these positive signs, Togo's economic and political environment remains fragile; there have been outbursts of violence in recent months and the international community is hesitant. In addition, and despite an economic and fiscal revenue performance exceeding program targets, the budgetary situation remains difficult.

Medium-Term Prospects

Building on opportunities stemming from the devaluation, the policy framework aims at promoting a broad-based, private-sector-led recovery of Togo's economy and returning it to a sustainable growth path that will accelerate employment creation for its rapidly growing population and raise incomes. The government has set a target of 6 percent annual growth over 1995-97. The key strategies to attain these goals include restoring macroeconomic stability, resuming the structural adjustment program interrupted by the 1992-93 political crisis to support a strong private-sector supply response to the recent devaluation, rehabilitating Togo's physical infrastructure, and alleviating urgent social problems, including the lack of essential social services and widespread unemployment. The key issue in the government's development agenda is how swiftly it can reorient itself from heavy intervention in the economy to providing an enabling environment for private economic activity and the essential services and infrastructure needed to underpin economic growth. Progress in this area will critically depend on the speed and depth with which the government is able to privatize the phosphate company, reduce military expenditures, decentralize its administration, and create a national consensus on the reform agenda.

Togo's main sources of growth are agriculture, light industry, and commerce. Increased agricultural produc-

tion will depend upon productivity gains, increased crop diversification, and development of unused land. Among cash crops, cotton clearly provides the most promising prospects. Significant potential also exists for increasing and diversifying production of food crops such as tubers, maize, millet, and sorghum to meet growing urban demand. Growth in small-scale industry, commerce, and transit activities, which are private-sector-led, will hinge on government's ability to put in place an enabling environment and a stable macroeconomic framework. Regaining its position as a regional financial center will remain a long-term objective dependent on comprehensive measures to stabilize Togo's financial system, including a reform of public enterprises and a restructuring of its financial sector.

Even before the crisis, Togo's health and education indicators, while having improved over the last 30 years, were lower than in many other Sub-Saharan countries. Reducing customs duties and taxes on essential goods was among the first measures taken by government in early 1994 to attenuate the effect of the devaluation. It has also resumed a major structural and budgetary reform of the health system started in 1991 that aims at enhancing the delivery of basic services and ensuring low-cost availability of essential drugs. The government also intends to accelerate implementation of labor-intensive public works projects — primarily priority road and social infrastructure rehabilitation — to provide short-term employment and income-earning opportunities for unskilled workers and small contractors.

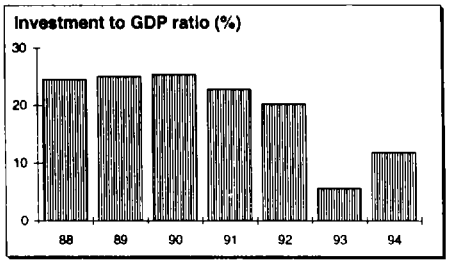
Togo

Population mid-1993 *(millions)* **3.9**
GNP per capita 1993 *(US$)* **340**

Income group: **Low**
Indebtedness level: **Moderately indebted**

KEY RATIOS

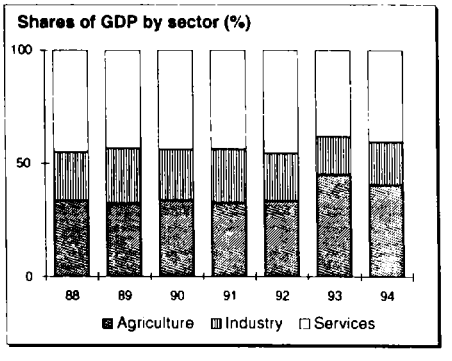
	1985	1990	1992	1993	1994
Gross domestic investment/GDP	24.1	25.4	20.2	5.6	11.8
Exports of goods and nfs/GDP	48.4	33.3	26.8	21.0	32.3
Gross domestic savings/GDP	15.4	13.6	11.1	-2.2	2.6
Gross national savings/GDP	10.0	12.3	10.0	-4.1	-1.1
Current account balance/GDP	-12.7	-13.0	-10.3	-9.3	-13.8
Interest payments/GDP	5.1	2.0	0.6	0.6	3.1
Total debt/GDP	123.3	78.5	80.1	96.3	128.8
Total debt/exports	230.4	216.9	267.7	386.3	388.6



GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	33.7	33.7	33.5	45.2	40.7
Industry	21.7	22.5	21.1	16.7	18.9
Manufacturing	6.7	9.9	9.5	6.5	..
Services	44.7	43.8	45.4	38.1	40.4

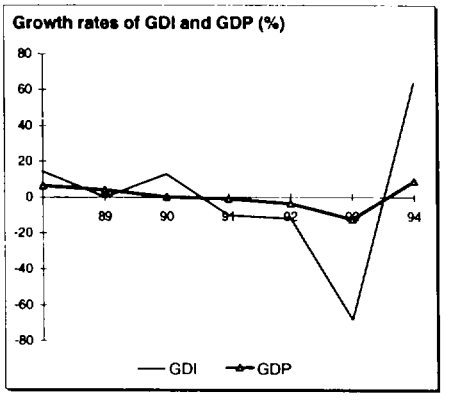
	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Agriculture	4.3	5.7	-1.3	16.6	8.1
Industry	4.5	-11.0	-13.4	-30.0	10.6
Manufacturing	8.1	-15.0	-9.8	-40.8	7.8
Services	1.1	-9.1	-0.3	-28.9	9.2
GDP	2.9	-3.5	-3.6	-12.4	8.9



GDP: EXPENDITURE

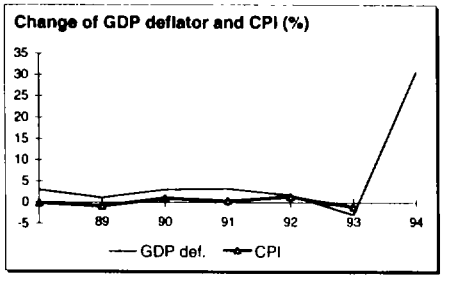
	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	71.5	71.2	75.1	86.7	82.4
General government consumption	13.1	15.2	13.8	15.5	15.0
Gross domestic investment	24.1	25.4	20.2	5.6	11.8
Exports of goods and nfs	48.4	33.3	26.8	21.0	32.3
Imports of goods and nfs	57.1	45.1	35.9	28.8	41.5

	1985-90	1990-94	1992	1993	1994
(average annual growth)					
Private consumption	1.9	-1.6	-0.5	-4.2	2.3
General government consumption	5.8	-6.7	-11.3	-11.6	8.0
Gross domestic investment	5.9	-26.1	-11.9	-68.0	63.7
Exports of goods and nfs	1.6	-10.6	-12.8	-22.7	0.1
Imports of goods and nfs	2.9	-17.6	-12.7	-34.9	-3.0
Gross national product	3.6	-4.0	-3.4	-13.1	7.1
Gross national income	3.4	-6.0	-5.8	-17.0	8.2



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	-1.8	1.0	1.4	-1.0	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	2.9	3.0	1.8	-2.8	30.6
Government finance					
(% of GDP)					
Current budget balance	6.2	1.2	-2.2	-12.3	-11.0
Overall surplus/deficit	-6.1	-6.0	-5.7	-14.2	-12.7

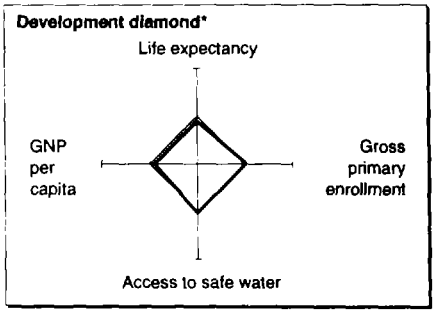


Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

POVERTY and SOCIAL

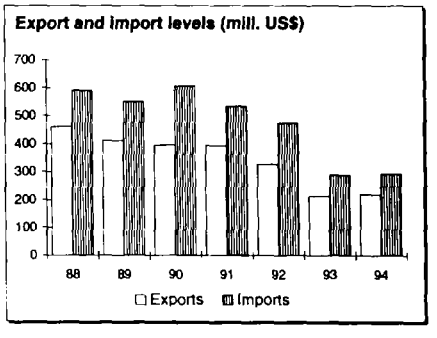
	1985-90	1990-94
(annual growth rates)		
Population	3.1	*3.2*
Labor force	2.3	2.4

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	55.4
Infant mortality *(per 1,000 live births)*	83.4
Child malnutrition *(% of children under 5)*	24.4
Access to safe water *(% of population)*	70.7
Energy consumption per capita *(kg oil equivalent)*	46.6
Illiteracy *(% of population age 15+)*	56.7
Gross primary enrollment *(% of school-age population)*	111.0



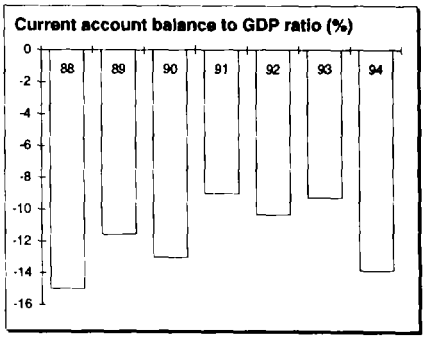
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	282	395	327	214	219
Phosphorus	95	103	79	52	69
Cocoa	15	15	10	5	4
Manufactures	47	150	128	75	61
Total imports (cif)	435	607	475	290	294
Food	87	86	81	46	41
Fuel and energy	20	48	36	26	22
Capital goods	52	131	85	61	91
Export price index *(1987=100)*	131	110	103	97	192
Import price index *(1987=100)*	113	106	103	105	205
Terms of trade *(1987=100)*	116	104	100	92	93
Openness of economy *(trade/GDP,%)*	106	78	63	50	74



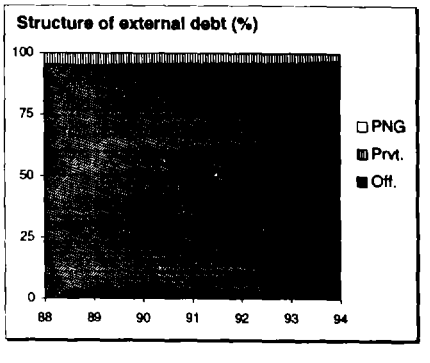
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	369	545	456	297	315
Imports of goods and nfs	436	738	612	396	414
Resource balance	-67	-193	-156	-99	-99
Net factor income	-38	-30	-27	-35	-44
Net current transfers	8	10	9	10	8
Current account balance					
Before official transfers	-97	-213	-175	-125	-135
After official transfers	-27	-99	-94	-94	-114
Long-term capital inflow	-2	62	18	3	-4
Total other items (net)	108	40	-10	-35	159
Changes in net reserves	-79	-3	86	125	-41
Memo:					
Reserves excluding gold *(mill. US$)*	297	353	272	156	..
Reserves including gold *(mill. US$)*	301	358	277	161	..
Conversion rate *(local/US$)*	449.3	272.3	264.7	283.2	555.2



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	194.1	183.1	224.7	337.3	353.3
IMF credit/exports	18.2	14.7	15.2	20.5	19.8
Short-term debt/exports	18.1	19.1	27.8	28.5	15.5
Total debt service/exports	27.3	14.5	7.2	8.2	27.6
GDP ratios					
Long-term debt/GDP	103.8	66.3	67.3	84.1	117.1
IMF credit/GDP	9.7	5.3	4.5	5.1	6.6
Short-term debt/GDP	9.7	6.9	8.3	7.1	5.1
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	10.9	4.8	4.4	4.4	3.3
Official creditors/long-term	89.1	95.2	95.6	95.6	96.7



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Uganda

During the 1960s Uganda was one of the most promising economies in Sub-Saharan Africa, but, starting in 1972, the economy declined because of political turmoil, civil war, and economic mismanagement. The National Resistance Movement, which took power in January 1986, inherited an extremely difficult economic situation, with a real GDP that had declined by about 20 percent between 1972 and 1985. The new government also inherited a large external debt burden, with a debt service ratio of more than half of fiscal 1985 export earnings.

The government at first adopted an interventionist stance, introducing expansionary fiscal and monetary policies. However, these policies proved unsustainable and inflation soared to triple-digit levels. In 1987, amidst a rapidly deteriorating economic situation, the government began an economic recovery program aimed at restoring macroeconomic stability, creating the conditions for sustained economic growth, and developing human capital through investments in education, health, and other social services. The program also included widespread structural reform.

Only slow progress was made on stabilization and the reform program from 1987 to 1992. Since then, however, implementation has been strengthened and notable successes have been achieved. Tight expenditure control helped bring annual inflation brought down from nearly 65 percent in June 1992 to about 7 percent by the end of December 1994. Control over monetary growth was less effective, but the economy was able to absorb the increased money supply without excessive inflationary pressures. The low inflation contributed significantly to the stability of the exchange rate and supported the ongoing trade and exchange liberalization. Per capita income in 1993 was about $180.

Structural and Institutional Reforms

When the recovery program began, Uganda's economy was very static and highly regulated. Parastatals dominated nearly all sectors, inefficient state trading boards abounded, government controls circumscribed private-sector activity in nearly every aspect of economic activity, and institutional inefficiencies were a debilitating drag on private business initiatives. In addition, a number of important products, including most export items and some imported goods, were price controlled. To reverse this situation, the government embarked on a comprehensive policy and institutional reform program designed to deregulate the economy, eliminate direct state involvement in all but essential public services, and improve institutional efficiency. Price controls were first removed from industrial products, then in fiscal 1992 from major crop prices, and in January 1994 from retail petroleum prices.

Price deregulation was accompanied by removing entry barriers to markets and dismantling state marketing boards that controlled the internal trade and export marketing of produce, coffee, and cotton. Uganda also deregulated its trade and payments system. First, the licensing of exports and imports was replaced by simple registration systems, and the level and dispersion of import duty rates were reduced. Shortly thereafter, all quantitative restrictions on imports were removed, except for those on a small negative list, and the surrender requirement on export earnings was progressively eliminated. The market for foreign exchange was steadily liberalized, the latest step being replacement of the foreign exchange auction in November 1993 with a fully liberalized interbank market.

In an effort to stimulate private-sector investment and growth, the government has made substantial progress in the politically sensitive task of returning properties expropriated under a previous regime. To improve fiscal management and enhance the delivery of public services, the government has undertaken a wide-ranging civil service reform that reduced its staff from 320,000 in 1990 (including ghost and temporary workers) to around 150,000 in December 1994. In addition, all government ministries and agencies have been reorganized and restaffed along functional lines. Concurrently, wages and salaries are being raised as rapidly as resources permit. The army is being downsized, and when completed, the demobilization will represent an estimated 50 percent reduction in the nation's military forces.

A quasi-independent Uganda Revenue Authority was established to improve tax administration and reduce

corruption, and a new Uganda Investment Authority was created to facilitate private and foreign investment. The government has embarked on a wide-ranging decentralization program to devolve much of public service delivery to district and local governments. Reform efforts in the financial sector have concentrated on freeing interest rates and increasing the efficiency of the banking system by attempting to restructure problem banks and introduce competition. The government is restructuring — and plans to privatize — the Uganda Commercial Bank, the dominant bank in the sector with about 40 percent of all deposits, and the Cooperative Bank. In addition, through the passage of the new Banking and Financial Institutions Acts, the autonomy and authority of the central bank have been increased to enable it to manage monetary policy more effectively and improve its prudential supervision of commercial banks.

Recent Economic Performance

Uganda's real GDP grew at an average of 5.4 percent over fiscal years 1987-93, a gain of about 2.5 percent a year in per capita terms. To a large extent this growth was the result of bringing land and capital back into production, an outcome made possible by increased peace and security. More recently, growth has also been fueled by some private investment and the impact of trade, exchange rate, and crop marketing liberalization. Preliminary indications are that real GDP may have risen as much as 6 percent in calendar 1994. There are a number of reasons for the relatively low level of private investment, including a regulatory framework that is still stultifying despite substantial reforms, a legacy of concern over economic and political stability, poorly functioning infrastructure, the high cost of doing business in Uganda, and inefficiency of the banking system. The low level of domestic tax revenue remains a constraint to public investment, most of which is financed by donors. Although domestic tax revenue increased from 7.2 percent of GDP (market prices) in fiscal 1993 to 8.2 percent in fiscal 1994, the national budget remained dependent on the shilling counterpart to donor import support. There is also an absorptive capacity constraint on public investment.

Coffee provides about two-thirds of Uganda's export revenue, and the tripling of world coffee prices in June 1994 was a major event. So far, the government has managed the boom well: inflation has actually fallen, and the nominal exchange rate has appreciated only 4 percent since June 1994. The boom will temporarily ease Uganda's balance of payments problems, and provide good returns to coffee growers and exporters. For the longer term, however, Uganda will continue to depend on external financing of imports vital to its growth process, despite rapid growth in nontraditional exports from a very low base. There is also a risk that the appreciation of the shilling will erode Uganda's competitiveness in external markets, which could delay much-needed diversification of its export base. Uganda recently imposed a stabilization tax on coffee exports to sterilize some of the revenues. Additional import demand also seems to be offsetting some of the inflow. The Bank of Uganda is also building a cushion of reserves that can be decumulated when the situation reverses.

The primary objective of Uganda's development strategy is to reduce poverty by generating employment and income opportunities through sustained macroeconomic stability, strong economic growth and increasing the provision and effectiveness of public services. Poverty reduction is receiving greater attention from the government, now that much of the reform program is well under way. Economic growth is seen as the main vehicle for poverty reduction. This has been reflected in income-generating initiatives in high-poverty areas of the country. Efforts are also being made to target public spending on essential services (especially health, education, water, and sanitation) benefiting the poor.

Uganda has good growth potential, particularly in agriculture, industry, and tourism. With the current policy and incentive framework, the economy can sustain annual growth of 5 to 6 percent. With more rapid adjustment and institutional reforms, and higher investment, this could rise to 7 to 7.5 percent in the medium term.

In agriculture, the greatest potential is in cash crops for export. Apart from coffee, cotton, which was once a major export crop, has substantial room for expansion, and present reforms aimed at deregulating and restructuring this subsector to facilitate private investment should provide the impetus for rapid growth. Nontraditional export crops, such as maize, beans, fish, cut flowers, and horticultural products, also have good potential. Manufacturing has grown rapidly over the past several years and has the potential for further increases. The processing of agricultural raw materials and the production of consumer goods to substitute for imports seem to have the best prospects in the short term. However, there is a danger that the disproportionate inward orientation of manufacturing will result in stagnation in the longer term. Despite substantial actions already taken to improve the business climate, investment has been slow to respond. Tourism is receiving increased attention from external investors, however, as the government moves to privatize the industry.

Improving public sector management is high on the government's agenda, and good progress has been made on civil service reform. Managing the public sector is made more difficult by parastatals, whose importance in

the economy is limited but whose drain on the budget is substantial; progress on privatization and public enterprise reforms to resolve this problem has been slow. The public sector's capacity to implement investment programs is limited, constraining growth in the development budget. The government has recently begun an extensive decentralization program to devolve public services to district and local governments.

Environment

Deforestation and degradation of Lake Victoria and other lakes have emerged as Uganda's most serious environmental problems. Some estimates have suggested that as much as 40 percent of the country's forests have been lost since the late 1950s owing to agricultural expansion and demand for timber. Lake Victoria is being threatened by urban water pollution, overfishing, and the conversion of wetlands to agriculture, and the spread of noxious water plants threatens the lake ecosystem's integrity. Regional plans to address the urgent problems of Lake Victoria are under preparation. In a broader context, a national environmental action plan lays out a framework for integrating environmental considerations into Uganda's overall economic and social development efforts. A recently completed "State of the Environment" report provides a comprehensive overview of the sector. District environment profiles are being prepared in a number of districts.

Regional Economic Integration

In the past two years, Uganda has resumed active discussions with its neighbors in East Africa, Kenya and Tanzania, towards reviving East African cooperation in trade, transport and communications, finance, and investment, as well as in regional immigration and security. In November 1994, the three heads of state issued a communiqué indicating the establishment of a secretariat in Arusha to facilitate East African cooperation and formulate steps toward strengthening regional institutions. The communiqué also indicated the intention of all three governments to implement the provisions of the cross-border initiative, including steps to harmonize tariff rates and simplify customs procedures and to consider the possibility of forming a customs union.

Medium-Term Prospects

Uganda has good prospects for economic growth. Since the commitment to structural change is strong, and political and social stability seem assured, no significant downside risk to the economy is foreseen. In fact, recent developments show a much improved economic outlook for fiscal 1995-96, due in particular to higher world coffee prices. This positive external shock is expected to have direct and indirect repercussions on the economy, not only in the balance of payments through higher exports, imports, and reserves, but also in consumption, investment, fiscal revenues, net foreign assets, and monetary growth. This in turn is expected to support continued rapid GDP growth, perhaps of over 7 percent over the next two years. Although the Ugandan economy is expected to continue making steady progress over the next decade, it will, however, also continue relying heavily on foreign aid.

External Debt

As of December 1994 Uganda had $3.15 billion in external debt outstanding and disbursed (equivalent to about 80 percent of 1994 GDP), which included $235 million in principal and interest arrears. These arrears were mainly to non-Paris Club, non-multilateral creditors. About 28 percent of external debt was owed to official bilateral creditors, half of which was owed to Paris Club creditors. Debt service payments (including IMF charges) in 1994 were equivalent to 54 percent of exports of goods and services. Multilaterals accounted for over half of the debt service payments that year.

In 1992 Uganda adopted a well-articulated strategy for managing its debt. The strategy has five components: year-by-year rescheduling of eligible Paris Club bilateral debt incurred before June 1981 and maximum annual deferral of all Paris Club bilateral debt accumulated thereafter; write-off or long-term rescheduling of all non-OECD bilateral debt; extension of bilateral balance-of-payments support to nonconcessional multilateral debt service; buy-back of uninsured commercial debt; and virtual cessation of government or government-guaranteed external borrowing on all but highly concessional terms. There has been progress in implementing all aspects of the strategy.

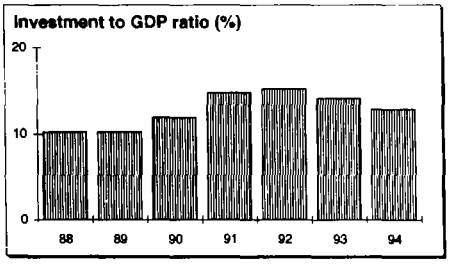
Uganda

Population mid-1993 *(millions)* **18.0**
GNP per capita 1993 *(US$)* **180**

Income group: **Low**
Indebtedness level: **Severely indebted**

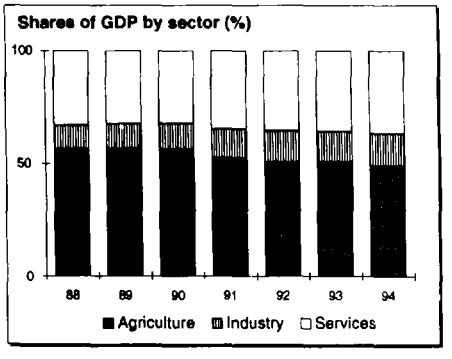
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	7.6	11.9	15.2	14.1	12.9
Exports of goods and nfs/GDP	11.6	6.0	7.2	5.5	6.1
Gross domestic savings/GDP	6.7	1.0	-0.5	-1.2	1.1
Gross national savings/GDP	6.7	1.6	2.0	4.6	..
Current account balance/GDP	-2.3	-9.9	-11.7	-10.8	-8.6
Interest payments/GDP	0.5	0.4	0.9	1.5	1.2
Total debt/GDP	31.6	61.5	104.7	93.0	79.2
Total debt/exports	303.6	1,086.1	1,553.4	1,453.0	973.8



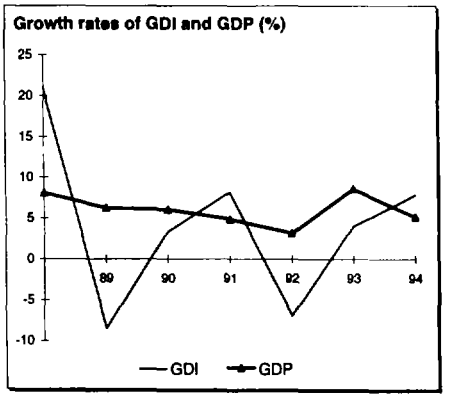
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	57.7	56.3	50.6	50.8	49.0
Industry	9.2	11.5	14.0	13.6	14.3
Manufacturing	5.3	5.7	6.5	6.2	6.8
Services	33.1	32.2	35.4	35.6	36.6
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	4.2	3.3	-1.1	9.5	1.7
Industry	8.8	10.2	11.2	7.5	12.9
Manufacturing	7.2	12.3	18.9	6.6	14.7
Services	5.2	7.6	7.9	7.7	6.9
GDP	5.2	5.5	3.2	8.6	5.2



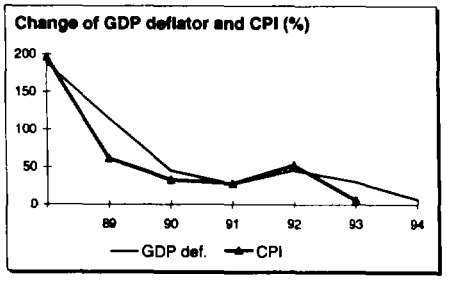
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	80.2	88.8	86.4	88.7	86.3
General government consumption	13.1	10.2	14.2	12.5	12.6
Gross domestic investment	7.6	11.9	15.2	14.1	12.9
Exports of goods and nfs	11.6	6.0	7.2	5.5	6.1
Imports of goods and nfs	12.5	16.9	22.9	20.8	17.9
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	5.1	5.3	0.9	11.9	2.1
General government consumption	4.1	3.4	24.0	-11.0	5.0
Gross domestic investment	11.8	2.1	-6.9	4.0	7.8
Exports of goods and nfs	2.3	8.6	17.1	-7.7	46.0
Imports of goods and nfs	6.6	2.3	-2.7	9.1	1.5
Gross national product	5.1	5.6	2.6	9.4	5.0
Gross national income	3.7	5.2	1.9	9.8	3.7



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	157.7	33.1	52.4	6.1	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	108.8	45.4	45.9	30.7	7.2
Government finance					
(% of GDP)					
Current budget balance	0.3	-0.3	-4.9	-1.1	-1.8
Overall surplus/deficit	-3.9	-5.8	-14.2	-11.1	-11.4



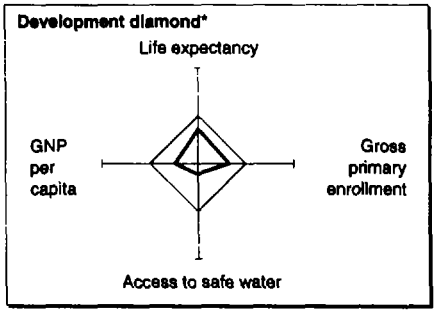
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Uganda

POVERTY and SOCIAL

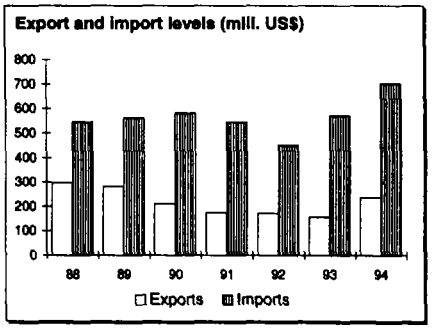
	1985-90	1990-94
(annual growth rates)		
Population	2.4	2.4
Labor force	2.8	2.9

	most recent estimate
Poverty level: headcount index *(% of population)*	55.0
Life expectancy at birth	44.5
Infant mortality *(per 1,000 live births)*	114.2
Child malnutrition *(% of children under 5)*	23.3
Access to safe water *(% of population)*	15.2
Energy consumption per capita *(kg oil equivalent)*	23.4
Illiteracy *(% of population age 15+)*	51.7
Gross primary enrollment *(% of school-age population)*	71.0



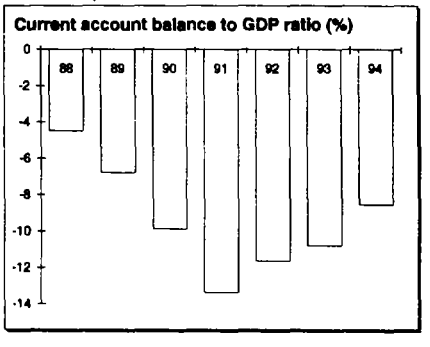
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	383	210	172	157	237
Coffee	353	159	117	99	152
Cotton	13	..	10	5	5
Manufactures	..	..	..	..	..
Total imports (cif)	404	584	451	573	703
Food	..	..	..	32	46
Fuel and energy	76	78	57	58	66
Capital goods	..	..	..	199	251
Export price index *(1987=100)*	104	43	38	38	48
Import price index *(1987=100)*	80	115	123	126	126
Terms of trade *(1987=100)*	129	38	31	30	38
Openness of economy *(trade/GDP,%)*	24	23	30	26	24



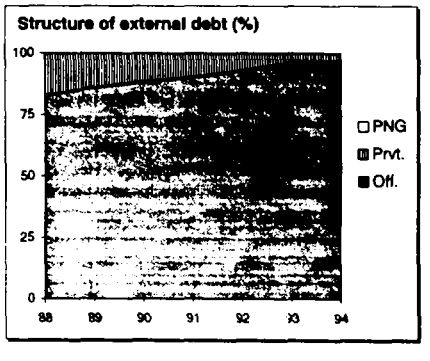
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	408	246	195	206	317
Imports of goods and nfs	484	676	582	753	872
Resource balance	-76	-430	-387	-547	-555
Net factor income	-53	-77	-87	-49	-60
Net current transfers	40	78	136	241	270
Current account balance					
Before official transfers	-89	-429	-338	-355	-345
After official transfers	-25	-276	-132	-96	-87
Long-term capital inflow	73	221	40	131	185
Total other items (net)	-9	46	93	-7	-20
Changes in net reserves	-39	10	-2	-29	-79
Memo:					
Reserves excluding gold *(mill. US$)*	27	44	94	146	..
Reserves including gold *(mill. US$)*	27	44	94	146	..
Conversion rate *(local/US$)*	5.1	319.6	960.8	1,201.8	1,103.4



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	218.9	909.2	1,292.1	1,244.2	860.1
IMF credit/exports	74.7	114.8	176.3	158.7	106.1
Short-term debt/exports	10.0	62.1	85.0	50.1	7.6
Total debt service/exports	38.4	57.7	54.6	143.6	57.6
GDP ratios					
Long-term debt/GDP	22.7	51.5	87.0	79.7	70.0
IMF credit/GDP	7.8	6.5	11.9	10.2	8.6
Short-term debt/GDP	1.0	3.5	5.7	3.2	0.6
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.1
Public and publicly guaranteed					
Private creditors/long-term	18.6	11.8	7.3	3.7	3.2
Official creditors/long-term	81.4	88.2	92.7	96.3	96.8



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Zaire

Zaire has the third largest population (40 million) and the second largest area (2.35 million square kilometers) in Sub-Saharan Africa. About 40 percent of its population is urban. The aggregate density of population is low at 17 people per square kilometer. In some regions, such as Kivu, demographic growth (sometimes aggravated by the influx of immigrants and refugees from neighboring countries, particularly following last year's events in Rwanda and Burundi) is putting pressure on land, with serious consequences for the ecology. Zaire has ample underutilized economic potential, including an industrious work force. Natural resources include the second largest rain forest in the world, fertile soils, ample rainfall, and considerable and varied mineral resources. Mining and processing of copper, zinc, cobalt, gold, and diamonds, and petroleum extraction, accounted until 1990 for about one-fifth of GDP and the bulk of export earnings.

Zaire's economy is below the country's potential and declining. Per capita GNP was estimated at $220 in 1990 and has since fallen by at least 30 percent. After a difficult period of civil turmoil and severe economic decline following independence in 1960, production expanded at an average rate of 4.9 percent in real terms over 1965-73, fueled by favorable terms of trade and foreign investment. The current account balance was in steady surplus, inflation was relatively low, and social indicators improved. Over 1974-82, deteriorating terms of trade and disruptions caused by the "zairianization" and nationalization of foreign-owned businesses led to an average yearly decline in GDP of 1.5 percent and persistent current account deficits. Expansionary public spending financed by money creation and heavy external borrowing — much of it on nonconcessional terms and for nonviable projects — failed to stimulate growth and fueled inflation. Over 1983-89 the government carried out a stabilization and adjustment program, marked by hesitations and lapses, that produced mixed results.

Since early 1990 political instability has been accompanied by declining production, investment and fiscal mobilization, unrestrained public spending financed by monetary creation, resulting in hyperinflation and currency depreciation, rising current account deficits, and mounting external arrears. This accelerated the loss of Zaire's creditworthiness and investor confidence, the rapid degradation of the country's productive assets and infrastructure, and the decline in living standards and social indicators. The true extent of economic decline is difficult to capture as economic activities have increasingly shifted to the informal sector. Zaire's modern economy, its institutions, and its human capital have suffered seriously and are rapidly eroding. Over 1989-93 GDP declined by at least 30 percent. Copper production declined by about 90 percent, cement production by 70 percent, the consumption of petroleum products by 50 percent, and road and river traffic by about 80 percent; the national railways have de facto ceased operation. Agricultural production has been hit especially hard by the collapse of the transport system. The only notable exception is diamonds, whose production has continued at about the same pace and has even increased in the informal sector. The short-term outlook for recovery is poor, and medium-term prospects are uncertain.

Social Indicators

Zaire's dismal economic performance affected social standards, once ahead of those in many countries in Sub-Saharan Africa. Even before the current crisis, social indicators were declining because of inappropriate public spending policies. In 1989 under-five mortality was close to 200 per 1,000 live births; maternal mortality was 6 per 1,000 live births; 25 percent of children and 13 percent of pregnant women were undernourished; enrollment in primary education was 76 percent, down from 92 percent in 1978; 77 percent of infants were not immunized before their first birthday, and more than 30 percent of children were never immunized; half of the children lacked access to antimalaria treatment; malnutrition, particularly of lactating mothers and children, was widespread; and adult illiteracy was 45 percent. The crisis that has gripped Zaire since 1990 has accelerated the decline in social indicators. With the exception of limited humanitarian aid, virtually all external financing in the social sectors has been discontinued, and many operations have been canceled; the already insufficient budgetary financing of social sectors has been greatly

reduced, and the ability of users and enterprises to pay for social services has been sharply curtailed. Occasional surveys indicate a worsening of infant mortality, child malnutrition, and other critical social indicators. Contagious diseases once contained, such as trypanosomiasis, have returned due to shortages of preventive programs and medication. Zaire is facing serious risks of widespread endemic diseases and further deterioration of its human capital, which will constrain development for many years.

Traditional external assistance flows have ceased due Zaire's failure to complete a transition to democracy, the deteriorating economic and financial environment, and the accumulation of payment arrears. Official assistance is currently limited to humanitarian aid. The country was about $6 billion in arrears at end-1994. Foreign private investment has essentially ceased.

Failed Adjustment, 1983-89

Between 1983 and 1989 Zaire took on-again, off-again stabilization and adjustment measures that built on the economy's traditional market orientation and supported initiatives to strengthen public resource management, liberalize prices and trade, and improve investment and export incentives. Initially, the program held promise. Over 1984-86, GDP growth averaged 3.3 percent, up from 0.7 percent in the preceding three years; copper mining regained profitability, and more coffee, diamond and gold exports started to flow through official channels, allowing export earnings to grow by 4.8 percent a year. Increased production of foodstuffs and manufactured goods helped reduce annual imports by 1.1 percent, the government's net recourse to domestic credit declined to 1.1 percent of GDP, from 3 percent in the preceding three-year period; annual inflation decelerated from 76 percent to 24 percent; and the overall fiscal deficit (on a cash basis, after debt relief) averaged 0.3 percent of GDP, compared with 2.1 percent during the previous three-year period.

In late 1986 stabilization and adjustment efforts weakened. Public spending increased, and progress in exchange rate and price liberalization was partially reversed. Inability to contain public spending and improve its composition and quality also derailed a short-lived stabilization effort in 1989. Over 1987-89, despite higher exports and external transfers, GDP growth declined to 0.6 percent a year, and government nondebt expenditure — mostly nondevelopmental — increased from 6.2 percent of GDP to 10.3 percent. Outlays in foreign exchange (excluding debt service and externally financed projects) increased six-fold to $550 million in 1988; budgetary revenue other than from the national copper mining company GECAMINES, which traditionally supplied up to one-third of the budget revenue, declined to 6.4 percent of GDP, from 8.5 percent in 1984-86; the external current account deficit averaged 6.9 percent of GDP, 64 percent higher than in the preceding three-year period; and inflation averaged 86 percent, compared with 31 percent over 1984-86.

Zaire's adjustment effort failed because of poor management of the economy, not for want of external support. Over 1987-89, net official transfers totaled $1.1 billion, without taking into account substantial debt relief.

Recent Political and Economic Developments

Zaire's current economic debacle, rooted in long-standing inappropriate policies, has accelerated during the political crisis that has gripped the country since April 1990, and whose end is not yet in sight. Single-party rule has been challenged by a broad-based opposition, by increasingly assertive regional and local interests, and by a vocal press. Military-led looting in late 1991 and early 1993 left behind a shattered economy and a tense social and political climate. The political situation is unstable, and pits the president against the most visible leader of a fractured opposition, who was named prime minister by a national conference in August 1992, then dismissed three months later after a confrontation with the president over the control of the central bank and its monetary policies. He contested his dismissal and formed an opposition government. An alternative government designated in April 1993 did not gain national or external acceptance.

In April 1994 the presidential coalition and the opposition reached agreement on constitutional arrangements during a transition period until elections in July 1995, and on a transition government. Under this agreement a new prime minister appointed in June 1994 formed a new government that was recognized by the international community. This government has taken steps to assume control over Zaire's public finances to address urgent stabilization measures. It is too early to say whether these efforts will succeed.

Political gridlock has led to unprecedented economic and social decay. Since renouncing adjustment efforts in early 1990, Zaire has been caught in a downward spiral of collapsing production, investment; and exports; inappropriate fiscal policies resulting in hyperinflation and accumulation of arrears; widespread unemployment and increased poverty; and rapidly declining living and social standards. Zaire's human capital has been eroded by dwindling personal incomes, greatly reduced public spending for education and health, and civil strife. The exodus of expatriates and vanishing employment opportunities in the formal sector further aggravated the situation. The dynamism of Zaire's informal economy — not adequately captured by official statistics — miti-

gated to some extent the impact of fiscal laxity and modern-sector decline, as did Zaire's legacy of nongovernmental delivery of social services. This has slowed down somewhat the economic and social decline, without, however, compensating fully for the shrinking formal economy.

Between 1989 and 1993 GDP is estimated to have contracted by 30 percent, exports (in SDR terms) by 52 percent, and imports by 72 percent. The destruction of capital assets due to riots and looting has been estimated at up to one-fourth of GDP. Compared with the 1987-89 period, in 1993 copper production declined from 460,000 to 48,000 tons, cement production from 490,000 to 149,000 tons, and crude oil production from 10 million to 8.3 million barrels. Consumption of petroleum products declined from 876,000 to about 400,000 cubic meters, and beer sales (an acceptable proxy for the monetary income of urban households) from 3.8 million to 1.4 million hectoliters.

Fiscal policy, spun out of control, is largely responsible for the extraordinary financial deterioration since 1990. While the tax base shrank gradually from 10 to 11 percent of GDP during the 1980s to about 3 percent of GDP in 1992/93, government spending surged to the point where receipts cover barely 10 percent of the its obligations and 20 percent of its cash outlays. The fiscal deficit has been financed by accumulating arrears and monetary expansion. Zaire has suspended all external debt service payments. External arrears reached $6 billion at end-1994, including about $700 million in arrears to multilateral creditors. In 1992 and 1993 issuance of currency was equivalent on average to more than 25 times the broad money stock at the beginning of each of these two years. As a result, inflation averaged more than 3,800 percent during 1991-93 and is estimated to have reached 9,800 percent in 1994. Despite rapidly expanding monetary financing of its spending, the government accumulated sizable domestic payment arrears, including arrears on wages and salaries. By September 1993 arrears on wages and salaries to public sector employees (except for some the military personnel) reached up to 12 months. Moreover, the expenditure surge was concentrated on nonwage outlays of political institutions and the military. In 1993 civil service wages in dollar terms were about 20 percent lower than in 1989, while nonwage current expenditure was 64 percent higher.

Since 1989 the domestic currency has depreciated by over 230,000 times, from Z455 to the dollar at end-1989 to Z105 million per dollar (in old zaires) at end-1993. In an attempt to contain the prohibitive cost of issuing and handling currency, alleviate the critical shortage of bank notes, and allow the government to meet its payroll and other domestic financial obligations, the Bank of Zaire introduced a new zaire in October 1993. The initial parity of NZ3 per dollar was rapidly eroded by an acceleration of government spending. Two months after its introduction, the new zaire was trading at NZ35 per dollar in the interbank market, and at over NZ100 per dollar on the parallel market. The two main diamond-producing regions have refused to accept it, and have de facto created an independent monetary zone where the old Zaire has remained in circulation and has maintained its value against the dollar.

The weakened government; adverse social, economic, and financial environment; shortage of local counterpart funds; and default on debt obligations have resulted in a rapid decline in investment. Official external capital disbursements were $35 million in 1993, less than 10 percent of the $367 million disbursed in 1989. Since 1990 externally financed investment has virtually ceased, and private investment dried up in the wake of the riots of September-October 1991. The Association of Zairian Employers estimated the damage caused by these riots at about $1 billion to enterprises alone. Subsequent civil unrest and degradation of the economic and social environment have further eroded investor confidence.

Short-Term Outlook

Zaire's short-term outlook is poor. Drastic stabilization measures are urgently needed, a difficult proposition even if a strong government were in place. Though aware of the urgent need to impose fiscal discipline, the current administration appears unable to act, because of its contested political legitimacy and fearing social unrest. Medium-term prospects are uncertain and hinge, in particular, on the outcome of the political transition and the policies of the successor government.

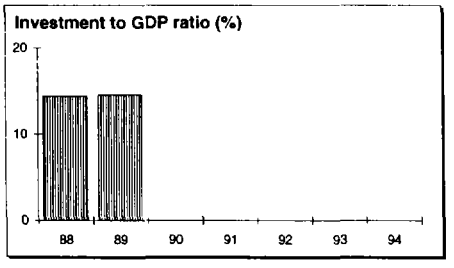
Zaire

Population mid-1993 *(millions)* **41.2**
GNP per capita 1993 *(US$)* ..

Income group: **Low**
Indebtedness level: **Severely indebted**

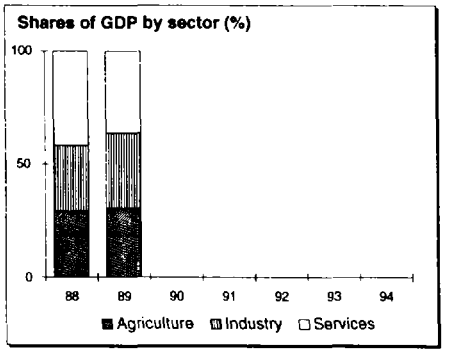
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	12.5	..	..	..	..
Exports of goods and nfs/GDP	27.5	..	..	..	..
Gross domestic savings/GDP	14.4	..	..	..	..
Gross national savings/GDP	6.5	..	..	..	..
Current account balance/GDP	-6.8	..	..	..	..
Interest payments/GDP	2.7	..	..	..	..
Total debt/GDP	85.8	..	..	..	..
Total debt/exports	307.6	444.7	..	..	..



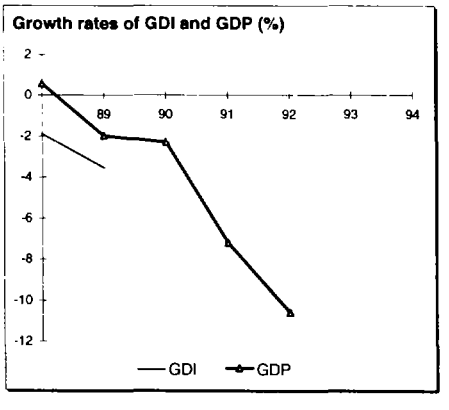
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	29.9	..	..	..	..
Industry	29.2	..	..	..	..
Manufacturing	9.9	..	..	..	..
Services	40.9	..	..	..	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	*2.5*	..	..	..	..
Industry	*-0.5*	..	..	..	..
Manufacturing	*-1.5*	..	..	..	..
Services	*2.0*	..	..	..	..
GDP	0.6	..	-10.6	..	..



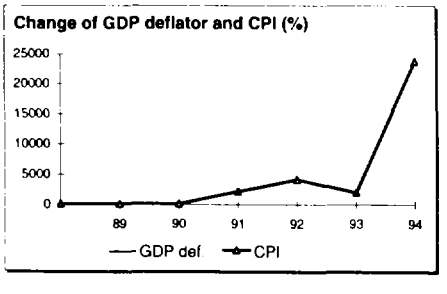
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	77.9	..	..	..	..
General government consumption	7.7	..	..	..	..
Gross domestic investment	12.5	..	..	..	..
Exports of goods and nfs	27.5	..	..	..	..
Imports of goods and nfs	25.6	..	..	..	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	*2.5*	..	..	..	..
General government consumption	*6.3*	..	..	..	..
Gross domestic investment	*-3.6*	..	..	..	..
Exports of goods and nfs	-1.6	..	..	..	..
Imports of goods and nfs	3.3	..	..	..	..
Gross national product	2.6	..	..	..	..
Gross national income	3.1	..	..	..	..



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	23.8	81.3	4,129.2	1,986.9	23,773.1
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	25.8	..	..	..	..
Government finance					
(% of GDP)					
Current budget balance	..	..	..	..	..
Overall surplus/deficit	..	..	..	..	..

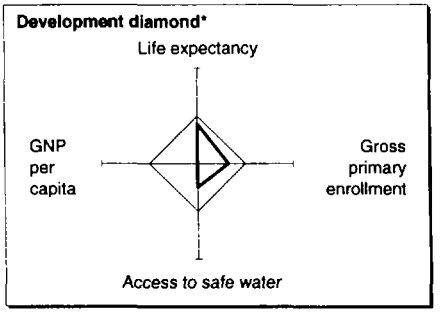


Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

POVERTY and SOCIAL

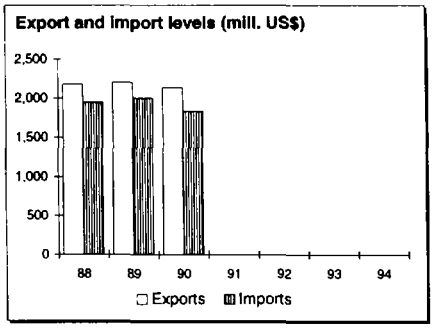
	1985-90	1990-94
(annual growth rates)		
Population	3.3	*3.2*
Labor force	2.3	2.5

	most recent estimate
Poverty level: headcount index *(% of population)*	..
Life expectancy at birth	52.0
Infant mortality *(per 1,000 live births)*	91.6
Child malnutrition *(% of children under 5)*	25.0
Access to safe water *(% of population)*	34.2
Energy consumption per capita *(kg oil equivalent)*	48.1
Illiteracy *(% of population age 15+)*	28.2
Gross primary enrollment *(% of school-age population)*	70.0



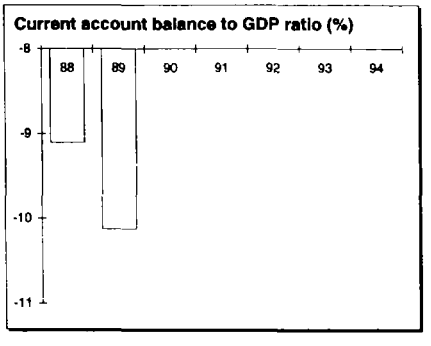
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	1,853	2,139	..	..	..
Copper	712	956	..	..	..
Coffee	154	56	..	..	..
Manufactures	..	11	..	..	..
Total imports (cif)	1,484	1,834	..	..	..
Food	..	..	..	..	..
Fuel and energy	..	..	..	..	..
Capital goods	..	..	..	..	..
Export price index *(1987=100)*	112	137	..	..	..
Import price index *(1987=100)*	81	112	..	..	..
Terms of trade *(1987=100)*	137	122	..	..	..
Openness of economy *(trade/GDP,%)*	53	..	..	..	..



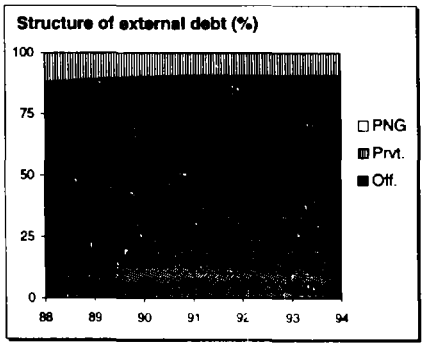
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	1,979	2,296	..	..	..
Imports of goods and nfs	1,844	2,447	..	..	..
Resource balance	135	-151	..	..	..
Net factor income	-569	-628	..	..	..
Net current transfers	-55	-81	..	..	..
Current account balance					
Before official transfers	-488	-861	..	..	..
After official transfers	-289	-644	..	..	..
Long-term capital inflow	-297	-31	..	..	..
Total other items (net)	550	756	..	..	..
Changes in net reserves	36	-82	26	111	-4
Memo:					
Reserves excluding gold *(mill. US$)*	190	219	157	46	121
Reserves including gold *(mill. US$)*	335	261	166	55	131
Conversion rate *(local/US$)*	49.9	718.6	6.5E+05	..	..



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	247.1	389.9	..	..	..
IMF credit/exports	40.2	22.6	..	..	..
Short-term debt/exports	20.2	32.2	..	..	..
Total debt service/exports	24.8	15.1	..	..	..
GDP ratios					
Long-term debt/GDP	68.9	..	..	..	..
IMF credit/GDP	11.2	..	..	..	..
Short-term debt/GDP	5.6	..	..	..	..
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.0	0.0	0.0
Public and publicly guaranteed					
Private creditors/long-term	17.9	9.9	9.5	9.5	9.4
Official creditors/long-term	82.1	90.1	90.5	90.5	90.6



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Zambia

Zambia's economy suffers from severe and long-standing distortions that will require a major long-term structural adjustment effort. Its major characteristics are a very high debt-service burden, heavy reliance on a single export product — copper — and a history of excessive public sector direction of, and direct participation in, the production of goods and services. Soon after independence in 1964 the United National Independence Party government sought to gain control of the economy through widespread nationalization. The economy became dominated by parastatals, and a one-party state was introduced. Rising copper prices helped the economy grow at an average rate of 2.5 percent in the first decade after independence. Since 1975, however, falling world prices of copper and the general deterioration in Zambia's terms of trade, coupled with the failure to develop a dynamic, diversified economy, have caused overall economic decline. Attempts to support continued consumption through borrowing failed to contribute to economic growth and created a severe debt problem.

As a result, Zambia faces particularly difficult constraints as it attempts to turn the economy around and achieve sustainable economic growth. In particular, Zambia carries an exceptionally large external debt burden. Total debt at end-1994 amounted to $6.2 billion, of which $3.1 billion was multilateral and $2.7 billion bilateral. Excluding short-term debt, Zambia's external debt represents nearly $650 per capita, one of the highest ratios anywhere. A rescheduling of Zambia's Paris Club debt was agreed in July 1992, and further Paris Club discussions are expected later this year. In 1994, a commercial debt buy-back operation reduced Zambia's debt by over $600 million.

Another major constraint on Zambia's potential for economic growth is its heavy dependence on copper. Copper (including cobalt) accounts for nearly 85 percent of exports, contributes over 15 percent of GDP, and is an important source of budgetary revenue. In recent years copper production has stagnated, and unless new operations are undertaken, a sharp decline in copper output is projected by the end of this decade.

The third major constraint is the dominance of the parastatal sector and the consequent stifling of competition and initiative. In addition, many parastatals have had an effective monopoly, resulting in high prices and low quality. The manufacturing parastatals have not kept up with product developments elsewhere. The tourism sector has attracted only a fraction of the potential market. The gemstone parastatal has exploited only a small portion of Zambia's tremendous potential, with most exports avoiding official channels. In the public utility sector, the position is not much better. The railways are unreliable and have lost much potential traffic to roads, the power company has been unable to maintain sufficiently steady voltage for the operation of sensitive industrial plants, and the telecommunications service is substandard in areas important to business.

As a result of this combination of poor policies and adverse external developments, the Zambian economy faced many problems in 1990. Inflation had been over 100 percent for three years; external debt was not being serviced, creating large arrears to multilateral and bilateral institutions; business and consumer confidence had disappeared; a parallel market in foreign exchange was flourishing; the budget deficit was large and increasing; the money supply was rising rapidly; asset holders were shifting their capital abroad and switching to foreign currency for local transactions; many parastatal companies were heavily indebted and making large losses; private investment had collapsed; military expenditures were rising and social sector expenditures declining; the physical infrastructure was deteriorating; tax compliance was low; basic goods and services were in short supply; and Zambia had neither food reserves nor financial resources to deal with natural disasters or other emergencies.

Recent Economic Developments

The structural adjustment program begun in fiscal 1990 combined trade policy reforms, deregulation, and exchange rate adjustment with stabilization policies designed to restore fiscal and balance of payment equilibrium and price stability. Policy achievements have been impressive. Among a host of measures, the government has eliminated subsidies on maize and fertilizer, decontrolled prices, and revised investment laws,

rules, and regulations. Zambia has completely decontrolled the exchange rate, freed interest rates, reduced the budget deficit (excluding grants and interest) from about 7 percent of GDP in 1991 to below 1 percent in 1994, and embarked on an ambitious privatization program. These achievements were made despite a devastating drought in 1992.

Zambia maintained good economic policy performance in 1994, particularly on fiscal and monetary policy. The consumer price index, which had increased at an average annual rate of over 100 percent in the previous four years, rose only at an annualized rate of 50 percent in the first half of 1994, and at 22 percent in the second half. Interest rates also fell sharply; the annualized rate on treasury bills fell from over 200 percent in April to 25 percent in December. Inflation and interest rates increased sharply in the first two months of 1995 because of increases in the price of maize and foreign exchange.

The improved fiscal performance has been aided by the successful operation of a cash budget system adopted in 1993 and the establishment of the Zambia Revenue Authority in April 1994. Improved collection performance increased the revenue-GDP ratio in 1994 by two full percentage points over 1993. The rapid decline in inflation and interest rates has bolstered the private sector's confidence in government and reduced expectations of future inflation. This should set the stage for a renewed pace of economic activity in 1995.

Significant progress has also been made on structural reforms, although the pace of change has often been slower than expected. In privatization, legal transfers have occurred for ten companies, and sales agreements have been signed for an additional four. Receipts by end-March are estimated to be $15 million. To facilitate a uniform policy direction in privatization and improve the transparency of parastatal management, the government has decided to close the parastatal holding company and transfer its remaining responsibilities to the Ministry of Finance and the Zambia Privatization Agency. Parastatals that cannot cover their costs are not being supported by public funds. Liquidation proceedings were begun in 1994 for both Zambia Airways and the United Bus Company. The politically difficult decision to close Zambia Airways demonstrated again the government's strong commitment to the economic reform program. In the public sector management area, considerable progress has been made in decentralizing service provision (particularly in health) and in developing reorganization plans for individual ministries.

Despite these policy reforms, output response has been uneven. After a decrease in real GDP of 2.5 percent in 1992 because of a severe drought, and an increase of 6.5 percent in 1993 as agriculture recovered, preliminary estimates are that real GDP declined by 5.1 percent in 1994. This was a result of declines in agricultural output due to poor rains early in the year, in mining because of technical and managerial production problems, and related manufacturing activities. There is evidence of some pickup in economic activity late in 1994. Local cement sales rose as construction activity expanded; electricity, gas, and water production grew at 9.6 percent in 1994; and new businesses were being formed. There also were modest gains in real estate and business services, and restaurants and hotels.

Medium-Term Prospects

Despite significant improvements in the policy environment and frequent demonstrations of political will to maintain the reform program, Zambia faces two major difficulties in both the short and the medium run. First, achieving sustainable economic growth, given Zambia's debt burden, will require very large inflows of foreign aid. The balance of payment position, even under the most optimistic scenarios, is expected to be so tight that under the most generous Paris Club terms currently implemented, Zambia will continue to transfer nearly 10 percent of its domestic production abroad as debt service for the remainder of this decade and beyond. Thus, while Zambia needs to reduce its dependence on external assistance, the phaseout will need to be gradual, and significant levels of support will still be needed in the medium term. Second, given the tightness of the resource constraints, the political demands for improvements in living standards, and the many competing demands expected as Zambia moves toward national elections in 1996, the ability of the government to adhere to the reform program will be tested.

Thus, the key to success is sustainable economic growth. Domestic policies to reduce inflation and improve public sector implementation capacity remain central to improving the prospects for growth. The most challenging macroeconomic policy issue will be to achieve economic growth without reigniting inflation. This will require a concerted and sustained effort. If Zambia can make this adjustment and hold to its current course, it should be able to break inflationary expectations and initiate a virtuous circle of lower interest rates and higher investment and exports, leading to lower inflation and increased growth.

The pace of privatization should pick up in 1995 with the closing of the parastatal holding company, the strengthening of the privatization agency, and public flotation of the assets of some of the larger parastatals. In public-sector management, the first 18 ministerial reorganization plans should be completed and approved by end-June, and implementation of at least six of those should be begun. Decentralization of services will continue in health and education and will be started in

agriculture. Road maintenance should take a major step forward with the proceeds of the new 30 kwacha-per-liter fuel levy going directly to the recently established Roads Board. An important aspect of this program will be placing road maintenance on a more commercial basis and making greater use of the private sector in carrying out the work.

Given the substantial deterioration in the living standards of the average Zambian over the past 18 years, the government has recognized that it cannot continue to undertake the stringent measures necessary to stabilize the economy and establish the other preconditions for economic growth without also ensuring that the bulk of the population begins to experience an improvement in welfare. While the measures taken to promote agriculture, exports, and the private sector generally should lead to sustainable and, indeed, rapid growth in key subsectors of the economy, this impact will be neither widespread nor dramatically apparent in the short term. In contrast, a welfare safety net that builds on the successful approach to alleviating the impact of the 1992/93 drought, combined with a reorientation of social services to meet widespread basic needs at the level of the health center, the primary school, and the community water system, will offer tangible evidence that less government can also mean better government in precisely those areas that are critical to the welfare and economic prospects of the poor in Zambia.

The government has been working to reverse the negative trends in social indicators and restructure the delivery of social services. The thrust of the restructuring is decentralization of service delivery, recovery of budgetary allocations, and greater delegation of authority, including for policy development. Initiatives include district management in health and education; devolution of safety-net measures to local groups, including NGOS; and restructuring of the water supply and sanitation sector. This approach complements the reforms designed to move Zambia toward a free-market economy. Budget allocations to the social sectors increased from 28 percent of the budget in 1993 to over 33 percent in 1994 and 1995.

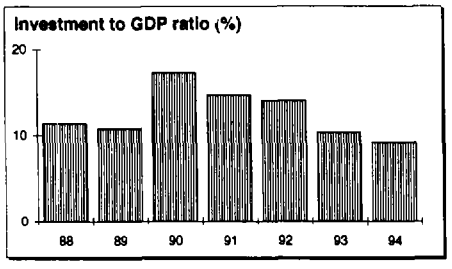
Zambia

Population mid-1993 *(millions)* **8.9**
GNP per capita 1993 *(US$)* **380**

Income group: **Low**
Indebtedness level: **Severely indebted**

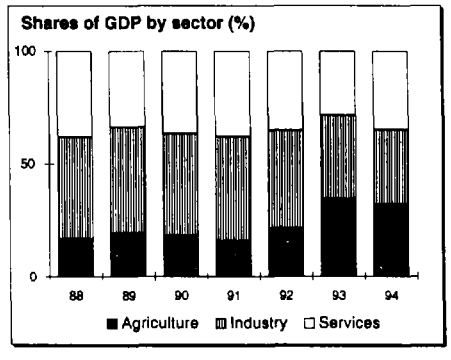
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	14.9	17.3	14.0	10.3	9.2
Exports of goods and nfs/GDP	38.8	37.3	36.1	30.3	32.7
Gross domestic savings/GDP	15.4	17.8	2.2	4.6	6.3
Gross national savings/GDP	3.5	8.1	-9.0	-3.1	..
Current account balance/GDP	-14.4	-11.8	-23.7	-13.1	-11.2
Interest payments/GDP	1.9	2.2	3.1	2.7	2.6
Total debt/GDP	203.2	220.2	218.1	188.2	184.5
Total debt/exports	477.6	539.4	582.0	638.0	549.9



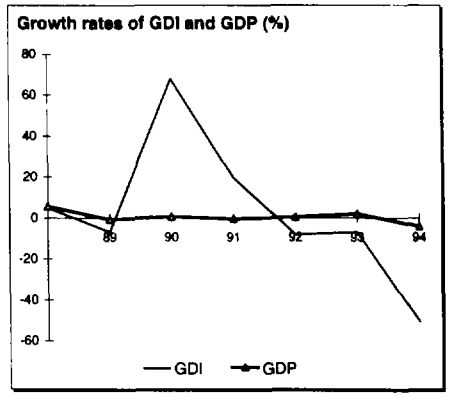
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	13.1	18.1	21.3	34.4	31.9
Industry	42.0	45.3	43.7	37.1	33.4
Manufacturing	22.9	31.9	33.2	23.0	21.6
Services	44.9	36.6	35.0	28.4	34.7
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	3.3	2.1	-33.1	79.8	-19.9
Industry	3.1	-1.3	9.7	-8.5	-5.5
Manufacturing	7.6	-1.3	12.0	-10.5	-6.5
Services	0.5	0.4	-0.4	0.4	2.9
GDP	2.0	-0.2	0.5	2.1	-4.1



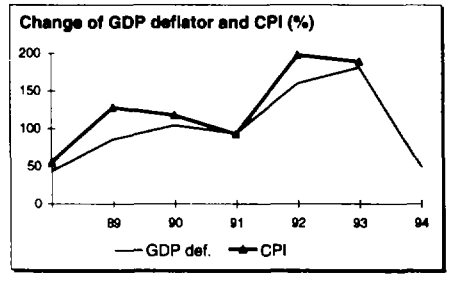
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	60.7	63.2	85.6	87.7	84.0
General government consumption	23.9	19.0	12.2	7.7	9.7
Gross domestic investment	14.9	17.3	14.0	10.3	9.2
Exports of goods and nfs	38.8	37.3	36.1	30.3	32.7
Imports of goods and nfs	38.2	36.8	48.0	36.0	35.6
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	5.4	10.7	79.0	14.0	10.1
General government consumption	-0.4	-9.8	-27.9	-24.6	10.4
Gross domestic investment	1.1	-14.2	-8.1	-6.8	-50.8
Exports of goods and nfs	-4.0	2.4	3.5	1.1	0.6
Imports of goods and nfs	-2.6	-1.1	28.0	-13.6	0.1
Gross national product	4.5	1.0	4.3	5.2	-4.4
Gross national income	5.7	-1.9	-1.6	4.7	-2.9



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	37.3	117.5	197.4	189.0	..
Wholesale prices	47.2	115.6	121.3	..	..
Implicit GDP deflator	41.1	104.4	159.7	180.9	49.1
Government finance					
(% of GDP)					
Current budget balance	..	-5.8	-5.4	-7.7	..
Overall surplus/deficit	..	-12.0	-9.2	-10.6	..



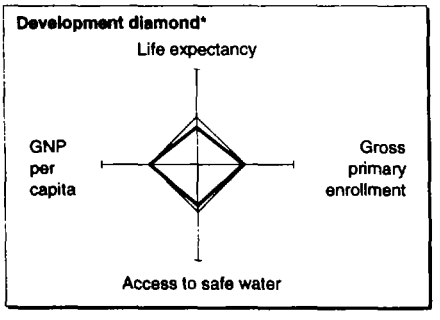
Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

Zambia

POVERTY and SOCIAL

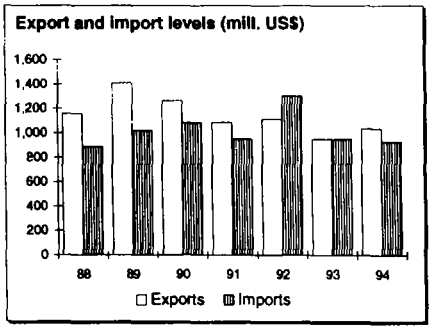
	1985-90	1990-94
(annual growth rates)		
Population	3.4	*3.1*
Labor force	3.3	3.5

	most recent estimate
Poverty level: headcount index *(% of population)*	86.0
Life expectancy at birth	48.3
Infant mortality *(per 1,000 live births)*	103.0
Child malnutrition *(% of children under 5)*	26.8
Access to safe water *(% of population)*	58.9
Energy consumption per capita *(kg oil equivalent)*	145.7
Illiteracy *(% of population age 15+)*	27.2
Gross primary enrollment *(% of school-age population)*	104.0



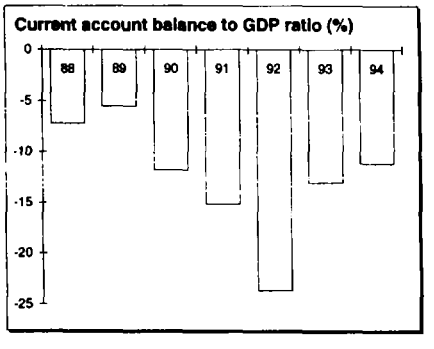
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	871	1,263	1,111	949	1,035
Copper	401	1,055	867	734	..
#N/A	17	17	8	7	..
Manufactures	..	..	..	..	..
Total imports (cif)	834	1,084	1,302	950	928
Food	23	9	..	..	..
Fuel and energy	122	119	53	47	..
Capital goods	163	455	..	..	..
Export price index *(1987=100)*	..	..	..	..	..
Import price index *(1987=100)*	..	..	..	..	..
Terms of trade *(1987=100)*	..	..	..	..	..
Openness of economy *(trade/GDP,%)*	77	74	84	66	68



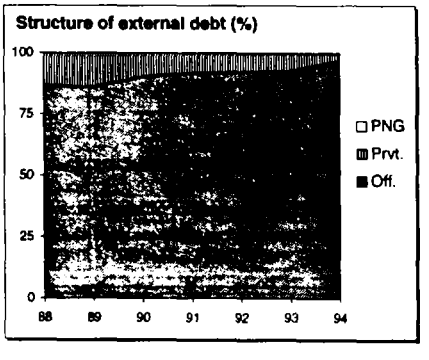
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	950	1,343	1,193	1,064	1,168
Imports of goods and nfs	969	1,369	1,585	1,261	1,557
Resource balance	-19	-26	-392	-197	-389
Net factor income	-267	-319	-328	-255	..
Net current transfers	-38	-43	-33	-19	0
Current account balance					
Before official transfers	-324	-388	-753	-471	-389
After official transfers	-271	-93	-117	-87	-36
Long-term capital inflow	281	-308	-169	-185	-122
Total other items (net)	-467	46	381	310	269
Changes in net reserves	456	355	-95	-38	-111
Memo:					
Reserves excluding gold *(mill. US$)*	200	193	..	192	..
Reserves including gold *(mill. US$)*	201	201	..	192	..
Conversion rate *(local/US$)*	3.1	34.5	178.9	452.8	670.8



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	323.6	361.5	396.8	439.7	421.7
IMF credit/exports	83.6	70.7	71.0	73.0	66.5
Short-term debt/exports	70.5	107.2	114.2	125.2	61.6
Total debt service/exports	14.4	15.1	29.5	32.8	19.1
GDP ratios					
Long-term debt/GDP	137.6	147.6	148.7	129.8	141.5
IMF credit/GDP	35.5	28.8	26.6	21.6	22.3
Short-term debt/GDP	30.0	43.8	42.8	36.9	20.7
Long-term debt ratios					
Private nonguaranteed/long-term	0.0	0.0	0.3	0.3	0.5
Public and publicly guaranteed					
Private creditors/long-term	18.5	9.8	7.5	7.1	2.7
Official creditors/long-term	81.5	90.1	92.2	92.6	96.7



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average If data are missing, the diamond will be incomplete.

Zimbabwe

Zimbabwe is a landlocked country of about 390,000 square kilometers bordered by Mozambique on the east, Botswana on the southwest, Zambia on the northwest, and the Republic of South Africa on the south. Estimated GNP per capita was $520 in 1993. The population reached 10.7 million in mid-1993, with a growth rate of about 2.8 percent a year.

At independence in 1980 Zimbabwe faced a number of difficult issues as the population expected rapid progress in redressing severe inequalities in income, capital, land holding, and access to social services. The economy was diversified and had good potential for growth, but physical infrastructure and the capital stock were depleted because of foreign exchange shortages during the previous 15 years and the effects of the war of liberation. On the human capital side, there were significant shortages of skilled labor, largely because of the emigration of white Zimbabweans and the educational policies of the pre-independence government. Finally, the government faced internal and external security problems that affected both business confidence and the transport of exports and imports.

Government effectively left intact the inherited economic structure, with predominantly private ownership of productive sectors, and maintained an extensive system of economic controls. To promote growth, it sharply increased foreign exchange allocations in 1980 and 1981, raised agricultural producer prices, and invested heavily in infrastructure. To promote equity, it expanded education and health services, increased minimum wages, reoriented agricultural services toward communal smallholder areas, and introduced an agricultural resettlement program. The combination of these policies and very favorable weather conditions resulted in bumper crops and an economic boom in 1980 and 1981, with GDP growth averaging 10 percent each year, but then unsustainable external and internal imbalances developed.

Zimbabwe's development strategy produced mixed results during the 1980s. While it made great strides in education, health and smallholder agriculture, per capita income remained stagnant because of disappointing economic growth that averaged about 3.2 percent. Private investment as a share of GDP fell to below 10 percent in the mid-1980s before recovering. Labor-force growth outpaced the expansion of employment opportunities so that by the end of the 1980s only one in three school leavers was being absorbed into the formal sector each year. Most of the growth in formal employment during the 1980s was in the public sector. After a period of large foreign borrowing in the early 1980s, the current account deficit of the balance of payments was kept in check through a strict system of direct foreign exchange allocations to avoid excessive foreign borrowing and debt buildup. The debt-service ratio rose to around 35 percent for the period 1985-88, due to a hump in repayment obligations to commercial banks and the IMF, before falling back to the low 20s for 1989 and 1990. However, the resulting shortages of imported goods constrained investment and productivity.

The Move to Adjustment — 1990 and 1991

Toward the end of the 1980s it became increasingly clear that sustained income growth would require fundamental changes in economic management. In particular, the fiscal deficit had to be reduced to a sustainable level, trade policy had to be liberalized, and domestic regulations had to be greatly reduced. Bolstered by the successful elections of 1990, government prepared a wide-ranging program of policy reform outlined in a "Framework for Economic Reform, 1991-1995." This document was distributed widely within the country and presented to the country's donors in early 1991. The adjustment program addresses the key policy constraints that have hampered Zimbabwe's development in the 1980s and will increase public sector efficiency, private sector development, and employment creation. Its main components are fiscal deficit reduction and monetary policy reform, trade liberalization, deregulation of private-sector activities, sector-specific policy initiatives, and measures to alleviate the impact of reforms on vulnerable groups. The program constitutes a movement from pervasive direct controls to market forces and is an appropriate blend of structural reforms and macroeconomic stabilization measures. Its fundamental objective is the improvement of living conditions, especially for the poorest segments of society.

There was a good beginning to structural adjustment in 1991. First, a system of open general import licensing,

amounting to 15 percent of imports, was established, and the export retention scheme was increased to 15 percent of export earnings to provide additional incentives to exports and access to license-free imports. To support demand management measures in maintaining a reasonable balance of payments position, the real depreciation of the exchange rate was accelerated. Second, the government accelerated its program of fiscal reform by adopting a budget that would reduce the deficit from 10.7 percent of GDP in fiscal 1991 to 7.1 percent of GDP for fiscal 1992. Third, initial steps were taken to liberalize marketing and pricing, and the Labor Relations Act was amended to formalize a transparent and quick mechanism for retrenching labor.

While good progress was thus made in initiating the adjustment process, macroeconomic balances deteriorated during the later part of 1991. The current account of the balance of payments deteriorated, from 4.2 percent of GDP in 1990 to 8.7 percent of GDP in 1991. Export receipts remained sluggish, due to disappointing agricultural export performance, resulting from below-average rainfall and the world economic slowdown, aggravated by the Persian Gulf crisis. Imports grew rapidly because of a large pent-up demand for newly freed imports and speculation about further exchange rate movements. The authorities initially hesitated in tightening monetary policy, but when pressure on foreign exchange mounted, decisive steps were taken during the second half of 1991 to contain aggregate demand. Money supply growth was slowed, interest rates were liberalized and became positive in real terms, and an aggressive exchange rate policy resulted in a 35 percent real depreciation of the Zimbabwe dollar between July and September 1991.

Despite the emergence of these stabilization problems, there were indications that structural improvements were taking hold in 1991. Investment increased, and nontraditional exports, such as horticultural products, textiles, and garments, showed a significant increase in real terms, albeit from a relatively low base. However, the supply response was less than expected. Continued investment licensing and excessive regulation of marketing and pricing were recognized as impediments to reaping the full benefits of foreign trade liberalization and fiscal reform. It was also felt that further action needed to be taken to shield the poor and other vulnerable groups from transitional hardships, partly to improve the longer-term sustainability of the reform program.

Dealing with Drought in 1992

Southern Africa was hit in 1992 by the worst drought this century, and this more than offset the economic benefits arising from the policy adjustments undertaken in 1991 and 1992. That the program was continued, despite the adverse economic circumstances, provides an indication of the government's commitment to adjustment.

As a result of the drought, Zimbabwe's GDP fell by 8 percent in 1992, with agricultural sector output falling by 25 percent. Manufacturing output also fell because of the combined effect of agricultural input shortages, a drastic decline in domestic demand, shortages of power and water, and the tight credit policies implemented to contain inflation and support the balance of payments. Despite this, inflation continued at about 40 percent, fueled by agricultural commodity shortages and the government's decision to pass on to consumers increases in producer and import prices for agricultural foodstuffs. Real incomes and consumption fell, as wages did not keep pace with the much higher cost of living. At the end of 1992 about 4 million people, 40 percent of Zimbabwe's population, were receiving free food, imposing a major burden on the budget.

Because of the unprecedented need for food imports and much lower exports of agricultural products, external balances deteriorated sharply during 1992. The current account deficit rose to 15 percent of GDP, and the accumulation of external debt was much higher than anticipated, rising from $2.9 billion at the end of 1990 to $3.5 billion, 62 percent of GDP, at the end of 1992. The fiscal deficit did not fall as expected in fiscal 1993, in part because the government undertook to provide every small-scale farmer with a minimum amount of seed and fertilizer with which to grow a crop in the 1992/93 season. Monetary and credit policy remained tight, and interest rates remained positive in real terms at around 35 percent. After the major depreciation of the Zimbabwe dollar in the third quarter of 1991, the nominal exchange rate was held constant during 1992, before falling by another 20 percent between December 1992 and February 1993. Large amounts of bilateral and multilateral financial support were disbursed during 1992 to assist Zimbabwe in its drought relief and recovery program and to ensure that its economic reform program remained on track.

Recovery in 1993 and 1994

The 1992/93 rainy season was a good one, and this outcomes, together with supportive prices and a program to ensure that farmers had the necessary inputs, resulted in substantial recovery. The maize crop was about 2.5 million tons, more than enough to meet current needs, cotton production returned to predrought levels, and water resources were replenished. The 1993-94 rainy season was also good, though there were patches of drought, with the result being another maize crop in excess of 2 million tons. The recovery of livestock, sugar, and tree-crop industries has been spread over the two seasons, but with the exception of cattle numbers in communal areas is back to pre1992 levels.

However, while the agricultural sector rebounded from the drought, overall GDP growth remained modest at an estimated 2 percent in 1993. This was largely due to continued depression in manufacturing caused by slowly recovering domestic demand, compounded by the continued tight monetary policy and the resulting high interest rates. Inflation fell from about 46 percent late in 1992 to about 20 percent during the second half of 1993 and has remained there. The fiscal deficit for fiscal 1993 exceeded 11 percent of GDP as drought-related expenditures continued until the harvesting of the 1993 crop in April-May, and revenues remained depressed on account of the economic recession. The planned containment of expenditure yielded a projected fiscal deficit for fiscal 1994 of 5.8 percent of GDP. This was designed to reduce domestic borrowing by government, ease pressure on interest rates, and support the needed recovery of private sector investment.

The balance of payments improved dramatically in 1993 despite a sharp fall in the prices of Zimbabwe's main exports — chrome, other minerals, and tobacco. Stagnant export earnings, combined with severely depressed import levels on account of the domestic recession, resulted in a reduction of the current account deficit to about 5 percent of GDP. The improvement in the balance of payments continued into 1994, as there was a sharp recovery in the value of agricultural and mining exports, with increases recorded in the prices of tobacco, coffee, gold, nickel, copper, and tin. Preliminary estimates indicate a 16 percent increase in the U.S. dollar value of merchandise export earnings. Merchandise imports grew at about 7 percent in U.S. dollar terms. As a result, the current account deficit narrowed to $210 million, or an estimated 3.8 percent of GDP. The improvement in the current account, together with a significant increase in portfolio and direct investment, has resulted in a substantial accumulation of external reserves, estimated at $680 million, or about five months of merchandise import cover.

Despite the serious economic and social difficulties created by the devastating drought, Zimbabwe continued with structural adjustment in 1993 and 1994. Import liberalization proceeded in line with program targets. The Export Retention Scheme rate was increased to 50 percent in April 1993 and then replaced by Foreign Currency Accounts in January 1994 and exporters retaining 60 percent of their foreign exchange earnings. In July 1994 the exchange rate was unified, and exporters were allowed to retain 100 percent of export earnings. Decontrol and adjustment of prices proceeded more quickly than targeted. Cabinet approval for price increases is now confined to only three commodities: maize meal, vegetable oil, and some fertilizer compounds.

Investment licensing was relaxed in April 1993 so investments made with "own foreign exchange funds," including Export Retention Scheme entitlements, are no longer subject to investment sanctioning. To further encourage foreign investment, government now allows automatic and unrestricted remittance of dividends accruing to any foreign investment made in Zimbabwe after May 1, 1993, provided such dividends are remitted through the Export Retention Scheme market. Foreign investment made after September 1979 is eligible for unrestricted repatriation of the foreign exchange injected as capital in the project, provided the Foreign Currency Accounts or Export Retention Scheme market is used for repatriation. Significant real cuts in non-drought-related expenditures were effected during fiscal 1993. Government's successful drought relief program created a major burden on public resources, in terms of both budgetary expenses and manpower needs. This resulted in specific programs dealing with the social dimensions of adjustment receiving less attention than originally expected. Nevertheless, an effective program for exempting the poor from school fees was introduced in 1992, as well as an appropriate income threshold established for the exemption of health fees. Unfortunately, the health exemption system has not operated as effectively as planned.

Employment and Poverty

Average per capita incomes have been stagnant since the early 1980s, but there have been significant poverty-related improvements in two areas. A supportive policy on agricultural pricing and a reorientation of agricultural services toward the communal areas have improved smallholder incomes, apart from in drought years. There has also been a substantial expansion of basic services in health, family planning, education, and urban services.

Inadequate employment growth has become a major concern in Zimbabwe. Although there are 200,000 new entrants to the work force each year, formal employment has expanded very slowly. This problem will be eased somewhat as structural reforms and deregulation lead to an expansion of small and medium enterprises.

External Debt

Assuming that gradual but decisive structural reforms take place, Zimbabwe's outstanding debt is projected to increase to between 70 and 75 percent of GDP in 1994 and 1995 and to decline thereafter. Long-term debt servicing rose to 28 percent of exports in 1992 and is projected to rise to 31 percent in 1993 before falling back to about 23 percent by 1995, provided a large share of the external finance needed is provided on a concessional and long-term basis. Some commercial borrowing will be needed, although most of the financial requirement is expected to come from multilateral and bilateral donors.

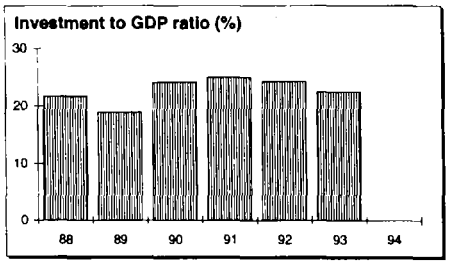
Zimbabwe

Population mid-1993 *(millions)* **10.7**
GNP per capita 1993 *(US$)* **520**

Income group: **Low**
Indebtedness level: **Moderately indebted**

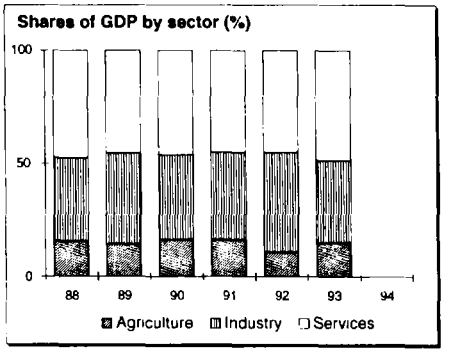
KEY RATIOS

	1985	1990	1992	1993	1994
Gross domestic investment/GDP	19.8	24.2	24.3	22.5	..
Exports of goods and nfs/GDP	28.8	29.4	36.4	34.3	38.7
Gross domestic savings/GDP	21.0	24.9	12.4	16.8	..
Gross national savings/GDP	17.2	20.3	7.6	12.7	..
Current account balance/GDP	-3.4	-3.8	-16.8	-5.1	-3.9
Interest payments/GDP	2.8	2.2	3.1	3.0	3.4
Total debt/GDP	53.4	47.9	79.6	73.8	80.4
Total debt/exports	186.9	159.1	215.5	207.0	192.9



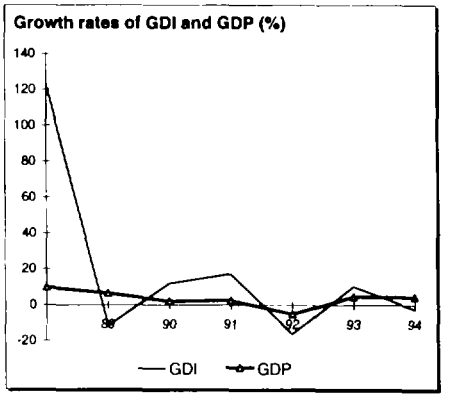
GDP: PRODUCTION

	1985	1990	1992	1993	1994
(% of GDP)					
Agriculture	20.2	16.4	10.7	15.2	..
Industry	32.6	37.5	44.4	36.4	..
Manufacturing	22.9	26.4	31.1	29.8	..
Services	47.2	46.2	44.9	48.4	..
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Agriculture	-0.8	*1.6*	-24.4	48.5	..
Industry	4.2	*-3.6*	-6.8	-5.0	..
Manufacturing	4.4	*-5.6*	-9.5	-8.3	..
Services	4.0	*1.7*	-1.5	1.9	..
GDP	4.0	1.1	-5.3	4.6	4.4



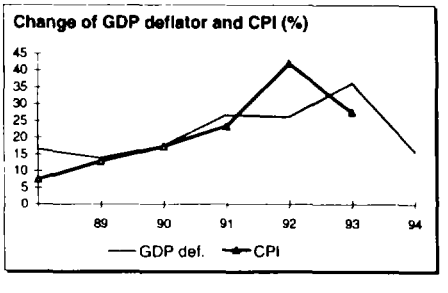
GDP: EXPENDITURE

	1985	1990	1992	1993	1994
(% of GDP)					
Private consumption	57.5	51.4	64.9	64.4	..
General government consumption	21.5	23.7	22.7	18.8	..
Gross domestic investment	19.8	24.2	24.3	22.5	..
Exports of goods and nfs	28.8	29.4	36.4	34.3	38.7
Imports of goods and nfs	27.6	28.7	48.3	40.0	36.4
	1985-90	**1990-94**	**1992**	**1993**	**1994**
(average annual growth)					
Private consumption	2.8	*1.3*	8.9	-11.8	..
General government consumption	3.4	*-3.7*	-11.0	-0.4	..
Gross domestic investment	7.6	0.2	-16.3	10.2	-2.6
Exports of goods and nfs	3.2	4.5	-2.8	13.7	12.7
Imports of goods and nfs	4.7	-0.7	3.1	-12.7	-3.2
Gross national product	3.9	0.7	-5.9	5.6	2.3
Gross national income	4.2	-0.7	-8.8	1.5	4.3



PRICES and GOVERNMENT FINANCE

	1985	1990	1992	1993	1994
Domestic prices					
(% change)					
Consumer prices	8.5	17.4	42.1	27.6	..
Wholesale prices	..	..	..	..	..
Implicit GDP deflator	5.3	17.6	26.1	36.2	15.8
Government finance					
(% of GDP)					
Current budget balance	-4.8	-0.5	-2.5	-2.5	..
Overall surplus/deficit	..	..	..	..	..

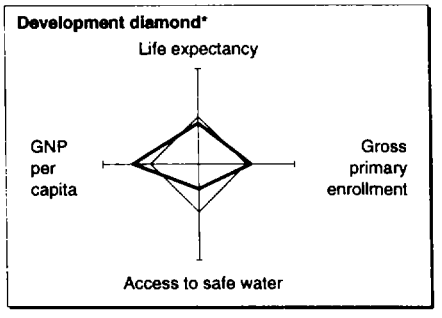


Note: 1994 data are preliminary estimates. Figures in italics are for years other than those specified.

POVERTY and SOCIAL

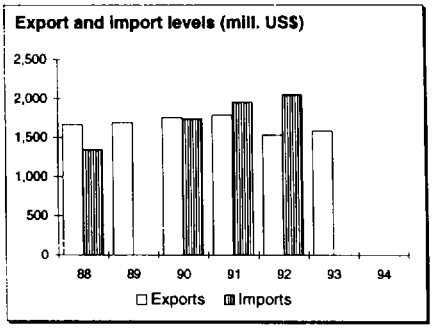
	1985-90	1990-94
(annual growth rates)		
Population	3.3	2.7
Labor force	2.8	3.0

	most recent estimate
Poverty level: headcount index *(% of population)*	25.5
Life expectancy at birth	53.1
Infant mortality *(per 1,000 live births)*	66.6
Child malnutrition *(% of children under 5)*	10.0
Access to safe water *(% of population)*	35.5
Energy consumption per capita *(kg oil equivalent)*	471.3
Illiteracy *(% of population age 15+)*	33.1
Gross primary enrollment *(% of school-age population)*	119.0



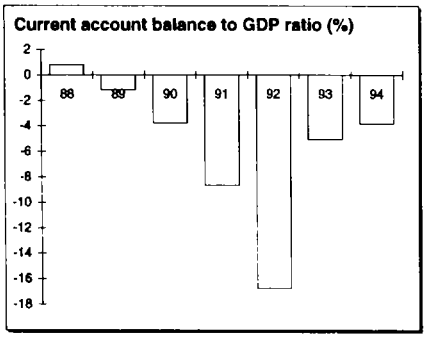
TRADE

	1985	1990	1992	1993	1994
(millions US$)					
Total exports (fob)	1,124	1,753	1,531	1,584	..
Cotton	225	395	450	366	..
Gold	124	239	164	234	..
Manufactures	315	648	580	..	..
Total imports (cif)	1,060	1,739	2,048	..	..
Food	37	42	318	..	..
Fuel and energy	226	275	251	..	..
Capital goods	298	690	808	..	..
Export price index *(1987=100)*	84	150	142	129	..
Import price index *(1987=100)*	80	110	107	..	..
Terms of trade *(1987=100)*	105	137	133	..	..
Openness of economy *(trade/GDP,%)*	56	58	85	74	75



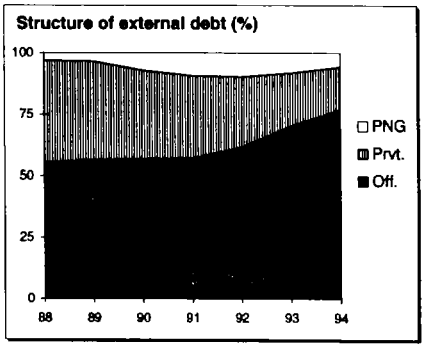
BALANCE of PAYMENTS

	1985	1990	1992	1993	1994
(millions US$)					
Exports of goods and nfs	1,229	2,018	1,836	1,952	2,224
Imports of goods and nfs	1,211	2,002	2,437	2,011	2,089
Resource balance	18	16	-601	-59	135
Net factor income	-126	-272	-283	-255	-366
Net current transfers	-45	-2	40	26	22
Current account balance					
Before official transfers	-153	-258	-844	-288	-209
After official transfers	-98	-150	-602	-107	-24
Long-term capital inflow	50	165	387	287	364
Total other items (net)	148	-34	88	-6	38
Changes in net reserves	-100	19	127	-174	-378
Memo:					
Reserves excluding gold *(mill. US$)*	93	149	222	432	405
Reserves including gold *(mill. US$)*	345	295	404	628	585
Conversion rate *(local/US$)*	1.6	2.4	5.1	6.5	8.2



EXTERNAL DEBT

	1985	1990	1992	1993	1994
Export ratios					
Long-term debt/exports	142.6	129.9	165.9	163.2	148.4
IMF credit/exports	20.4	0.3	11.6	14.0	14.0
Short-term debt/exports	23.8	29.0	38.0	29.8	30.5
Total debt service/exports	32.7	23.1	32.2	31.1	27.6
GDP ratios					
Long-term debt/GDP	40.8	39.1	61.2	58.2	61.9
IMF credit/GDP	5.8	0.1	4.3	5.0	5.8
Short-term debt/GDP	6.8	8.7	14.0	10.6	12.7
Long-term debt ratios					
Private nonguaranteed/long-term	3.5	7.0	9.6	8.1	5.5
Public and publicly guaranteed					
Private creditors/long-term	58.7	36.1	29.0	21.7	17.5
Official creditors/long-term	37.8	56.9	61.4	70.3	76.9



* The development diamond shows four key indicators of development in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

Technical Notes

The tables and graphs that follow each country text provide a uniform statistical framework for analyzing country economic performance. Most data are consistent with other World Bank publications, such as *World Tables*, *World Debt Tables*, and the *World Development Report*. Some data are recent estimates from national publications that may not conform to international concepts and definitions, but are considered to be useful in placing country policy decisions in context. These differences are generally not considered analytically significant for a particular country.

Population

Population numbers for mid-1993 are from a variety of sources, including the UN Population Division, national statistical offices, and World Bank country departments. Note that refugees not permanently settled in the country of asylum are generally considered to be part of the population of their country of origin.

Gross National Product (*GNP*)

GNP measures the total domestic and foreign value added claimed by residents. It comprises GDP (defined below) plus net factor income from abroad, which is the income residents receive from abroad for factor services (labor and capital) less similar payments made to nonresidents who contributed to the domestic economy. *GNP per capita* figures in U.S. dollars are calculated according to the *World Bank Atlas* method of conversion from national currency to U.S. dollar terms. The *Atlas* conversion factor for any year is the average of a country's exchange rate for that year and for the two preceding years, adjusted for differences in relative inflation between the country and the G-5 countries (France, Germany, Japan, the United Kingdom, and the United States). This three-year average smooths fluctuations in prices and exchange rates for each country. To derive GNP per capita, the resulting GNP in U.S. dollars is divided by the midyear population for the relevant year.

For *income group* and *indebtedness level* definitions, see the two classification tables at the back of the book.

Key Ratios

Key ratios are calculated as percentage shares of GDP or exports at current prices. The numerator of each ratio is defined below. The denominators (GDP and exports) are defined in the sections on production and balance of payments.

Gross domestic investment consists of outlays on additions to the fixed assets of the economy plus net changes in the level of inventories.

Exports (imports) of goods and nonfactor services represent the value of all goods and nonfactor services provided to (and from) the rest of the world; they include merchandise, freight, insurance, travel, and other nonfactor services. The value of factor services, such as investment income, interest, and labor income, is excluded. Current transfers are also excluded.

Gross domestic savings are calculated by deducting total consumption from GDP.

Gross national savings equal gross domestic savings plus net factor income and net current private transfers from abroad.

Current account balance after official transfers is the difference between (a) exports of goods and services (factor and nonfactor) as well as inflows of unrequited transfers (private and official) and (b) imports of goods and services as well as all unrequited transfers to the rest of the world. *Current account balance before official transfers* is the current account balance that treats net official unrequited transfers as akin to official capital movements. The difference between the two balance of payment measures is essentially foreign aid in the form of grants, technical assistance, and food aid, which, for most developing countries, tends to make current account deficits smaller than the financing requirement. The key ratio presented here is the current account balance before official transfers.

Interest payments (on long-term debt) are the actual amounts of interest paid in foreign currency, goods, or services by the borrower during the year.

Total debt includes total outstanding external debt (long- and short-term debt and the use of IMF credit).

GDP: Production

In the sections on production and expenditure, ratios of GDP are calculated from data in current prices, and growth rates are calculated from data in constant prices. Shares in production indicate the ratios of each sector's value added to GDP at basic or purchaser values (market prices).

Agriculture covers forestry, livestock, hunting, and fishing, as well as agriculture. In developing countries with high levels of subsistence farming, much agricultural production is either not exchanged or not exchanged for money. This increases the difficulty of measuring the contribution of agriculture to GDP and reduces the reliability and comparability of such numbers.

Industry comprises mining and quarrying; manufacturing (also reported as a separate subgroup); construction; and electricity, gas, and water.

Services comprise all other branches of economic activity. The share for services includes imputed bank service charges, import duties, and any statistical discrepancies noted by national compilers.

GDP at purchaser values (market prices) measures the total output of goods and services for final use produced by residents and nonresidents, regardless of the allocation to domestic and foreign claims. It is calculated without making deductions for depreciation of fabricated assets or depletion and degradation of natural resources.The estimate of GDP used for ratio calculations in the section *GDP production* is on the same basis as the components at purchaser values or at factor cost.

GDP: Expenditure

Private consumption is the market value of all goods and services, including durable products (such as cars, washing machines, and home computers) purchased or received as income in kind by households and nonprofit institutions, as well as self-consumed products. It excludes purchases of dwellings but includes the imputed rent for owner-occupied dwellings.

General government consumption includes all current expenditure for purchases of goods and services by all levels of government. All expenditure on national defense and security is regarded as consumption expenditure.

Gross domestic investment — see *Key Ratios.*

Exports/imports of goods and nonfactor services — See *Key ratios.*

GNP — see above.

GNY, or gross national income in constant prices is derived as the sum of GNP and the terms of trade adjustment. The latter is equal to capacity to import (value of exports of goods and nonfactor services deflated by the import price index) less actual exports of goods and services in constant prices.

Prices and Government Finance

Consumer prices refer to prices of goods and services used for private consumption of households.

Wholesale prices (or producer prices for some countries) refer to prices of items at the first important commercial transaction. Preference is given to producer prices because the concept, weighting pattern, and coverage are more consistent with accounting and industrial production statistics. The price index covers a mixture of prices of agricultural and industrial goods at various stages of production and distribution.

Implicit GDP deflator is an overall measure of price performance in the economy, derived by dividing the current price estimate of GDP at market prices by the constant price estimate of GDP.

Current budget balance is the excess of current revenue over current expenditure.

Overall surplus/deficit is total revenue and all grants received, less the sum of total expenditure and government lending minus repayment.

Poverty and Social Indicators

Population — see above.

Labor force comprises "economically active" persons, including armed forces and unemployed but excluding homemakers and other unpaid caregivers and students.

Poverty level headcount index is estimated as the proportion of population under the poverty line. The poverty lines are country-specific and are not comparable across countries.

Energy consumption per capita is the annual consumption of commercial primary energy (coal, lignite, petroleum, natural gas, and hydro-, nuclear, and geothermal electricity) in kilograms of oil equivalent per capita.

Infant mortality rate is the number of deaths of infants under one year of age per 1,000 live births in a given year. The data are from the UN Population Division. The rate for 1993 is a linear interpolator between the projected 1990-94 and 1995-99 rates.

Access to safe water is the percentage of population with reasonable access to safe water supply (includes treated surface waters or untreated but uncontaminated water such as that from springs, sanitary wells, and protected boreholes). In an urban area this may be a public fountain or standpost not more than 200 meters away. In rural areas it implies that members of the household do not have to spend a disproportionate part of the day fetching water. The definition of *safe* has changed over time.

Child malnutrition (under 5) is the percentage of children under five years with a deficiency or an excess of nutrients that interferes with health and genetic potential for growth. Methods of assessment vary, but the most commonly used are: less than 80 percent of the standard weight for age; less than minus two standard deviations from the 50th percentile of the weight-for-age reference population; or the Gomez scale of malnutrition.

Illiteracy (% of population age 15+) is the proportion of the population 15 years of age and older who cannot, with understanding, both read and write a short simple statement of everyday life. This is only one of the three widely accepted definitions, and its application is subject to significant qualifiers in a number of countries. The data for the most recent estimates are from the illiteracy estimates and projections prepared in 1989 by UNESCO. More recent information and a modified model have been used; therefore, the data for 1990 are not strictly consistent with those published in previous years.

Gross primary enrollment (% school-age population) is the gross enrollment of all ages at the primary level as a percentage of school-age children as defined by each country. Although many countries consider primary school-age to be 6-11 years, others use different age groups. Gross enrollment may be reported in excess of 100 percent if some pupils are younger or older than the country's standard range of primary school age.

The *development diamond* portrays relationships among four socioeconomic indicators for a given country and compares them with the average of the country's income group. Life expectancy, gross primary enrollment, access to safe water, and GNP per capita are presented, one on each axis, and then connected (with a bold line) to form a polygon—the "diamond." The shape of the diamond can thus easily be compared with the income group to which it belongs. The averages for each income group are indexed, and the reference diamond represented by a fine line. Any point outside the reference diamond represents a value better than the group average, and any point inside the reference diamond represents a value below the group average. Where data are not available, only part of the diamond appears. Since the reference diamond represents different values in different income groups, comparisons should be limited to the same income group.

Life expectancy at birth is the number of years a newborn infant would live if prevailing patterns of mortality at the time of its birth were to stay the same throughout its life. The data are from the UN Population Division. As an infant mortality rate, the most recent estimate is a linear interpolation between projected 1990-94 and 1995-99 rates.

GNP per capita — see above.

Trade

The section includes information on export and import values and prices, with additional value data on the two main export commodities and major categories of imports. The categorization of exports and imports follows the Standard International Trade Classification (SITC), Series M, No. 34, Revision 1. Note that in some cases, (for example, fuel), the export subcategory may be listed more than once. These represent different forms of the commodity and are therefore shown separately.

Total exports (f.o.b.)/*imports* (c.i.f.) cover, with some exceptions, international movements of goods across customs borders. Exports are valued f.o.b. (free on board) and imports c.i.f. (cost, insurance, and freight) unless otherwise specified in the foregoing sources.

Food covers the commodities in SITC Sections 0, 1, and 4 and Division 22 (food and live animals, beverages and tobacco, animal and vegetable oils and fats, oilseeds, oil nuts, and oil kernels).

Manufactures comprise commodities in SITC Sections 5 through 9 (chemicals and related products, basic manufactures, machinery and transport equipment, other manufactured articles and goods not elsewhere classified) excluding Division 68 (nonferrous metals).

Fuel and energy comprise commodities in SITC Section 3 (mineral fuels and lubricants and related materials).

Capital goods comprise commodities in SITC Section 7 (machinery and transport equipment).

Export/import price indexes are price indexes for measuring changes in the aggregate price level of a country's merchandise exports and imports over time.

Terms of trade is the relative level of export prices compared with import prices, calculated as the ratio of a country's index of average export price to the average import price index.

Openness of economy is the sum of exports and imports of goods and nonfactor services as a share of GDP.

Balance of Payments

Exports/imports of goods and nonfactor services — see *Key Ratios*.

Resource balance is exports of goods and nonfactor services minus imports of goods and nonfactor services.

Net factor income is the income received from abroad for factor services (labor and capital) less similar payments made to nonresidents who contributed to the domestic economy.

Net current transfers are private net transfer payments—between private persons and nonofficial organizations of the reporting country and the rest of the

world—that carry no provisions for repayment. Included are workers' remittances; transfers by migrants; gifts, dowries, and inheritances; and alimony and other support remittances. Net current transfers are equal to the unrequited transfers of income from nonresidents to residents minus the unrequited transfers from residents to nonresidents.

Current account balance — see *Key Ratios*.

Long-term capital inflow comprises changes, apart from valuation adjustments, in residents' long-term foreign liabilities less their long-term assets, excluding any long-term items classified as reserves.

Total other items (net) comprise the sum of short-term capital, errors and omissions, and capital transactions not included elsewhere.

Changes in net reserves comprise the net change in a country's holdings of international reserves resulting from transactions on the current and capital accounts. These include changes in holdings of monetary gold, SDRs, reserve position in the International Monetary Fund, foreign exchange assets, and other claims on nonresidents that are available to the central authority. The measure is net of liabilities constituting foreign authorities' reserves, and counterpart items for valuation of monetary gold and SDRs, which are reported separately in IMF sources.

Reserves excluding gold comprise a country's monetary authorities' (central bank, currency boards, exchange stabilization funds, and treasuries) holdings of SDRs, reserve position in the International Monetary Fund, and foreign exchange.

Reserves including gold comprise international reserves including gold and official holdings of gold valued at year-end London market price.

Conversion rate (local currency units/US$) is the official exchange rate as reported in the *International Financial Statistics* (line rf/wf — period average), expressed in units of national currency per U.S. dollar, although an alternative rate is used when the official exchange rate is judged to diverge by an exceptionally large margin from the rate actually applied in international transactions.

External Debt

Debt indicators presented in this section are ratios used to assess the external situation of developing countries. They are compiled on a consistent basis as reported to the World Bank's Debtor Reporting System by member countries.The ratios offer various measures of the cost of, or capacity for, servicing debt in terms of the foreign exchange or output forgone. External debt indicators are shown for the end of the year specified. The exports reported in this section include goods and all services and workers' remittances.

Long-term debt is defined as debt that has an original or extended maturity of more than one year and that is owed to nonresidents and repayable in foreign currency, goods, or services. Long-term external debt has three components:

- *Public debt* is an external obligation of a public debtor, including the national government, a political subdivision (or an agency of either), and autonomous public bodies.
- *Publicly guaranteed debt* is an external obligation of a private debtor that is guaranteed for repayment by a public entity.
- *Private nonguaranteed debt* is an external obligation of a private debtor that is not guaranteed for repayment by a public entity.

Private creditors include bonds that are either publicly issued or privately placed; loans from private banks and other private commercial institutions; credits from manufacturers—exporters, for example; and bank credits covered by a guarantee of an export credit agency.

Official creditors include loans from international organizations (multilateral loans), loans from governments and their agencies, loans from autonomous bodies, and direct loans from official export credit agencies.

IMF credit denotes repurchase obligations to the IMF with respect to all uses of IMF resources, excluding those resulting from drawings in the reserve tranche. It comprises purchases outstanding under the credit tranches, including enlarged access resources and all the special facilities (the buffer stock, compensatory financing, extended fund, and oil facilities), Trust Fund loans, and operations under the Structural Adjustment and Enhanced Structural Adjustment facilities.

Short-term debt is defined as debt that has an original maturity of one year or less. Available data permit no distinction between public and private nonguaranteed short-term debt.

Total debt service is the debt service payment (principal repayments and interest payments) on total long-term debt, use of IMF credit, and interest on short-term debt.

Table 1 Classification of economies by income and region, 1995

Income group	Subgroup	Sub-Saharan Africa: East and Southern Africa	Sub-Saharan Africa: West Africa	Asia: East Asia and Pacific	Asia: South Asia	Europe and Central Asia: Eastern Europe and Central Asia	Europe and Central Asia: Rest of Europe	Middle East and North Africa: Middle East	Middle East and North Africa: North Africa	Americas
Low-Income		Burundi Comoros Eritrea Ethiopia Kenya Lesotho Madagascar Malawi Mozambique Rwanda Somalia Sudan Tanzania Uganda Zaire Zambia Zimbabwe	Benin Burkina Faso Central African Republic Chad Côte d'Ivoire Equatorial Guinea Gambia, The Ghana Guinea Guinea-Bissau Liberia Mali Mauritania Niger Nigeria São Tomé and Principe Sierra Leone Togo	Cambodia China Lao PDR Mongolia Myanmar Viet Nam	Afghanistan Bangladesh Bhutan India Nepal Pakistan Sri Lanka	Albania Armenia Bosnia and Herzegovina Georgia Tajikistan		Yemen, Rep.	Egypt, Arab Rep.	Guyana Haiti Honduras Nicaragua
Middle-income	*Lower*	Angola Botswana Djibouti Namibia Swaziland	Cameroon Cape Verde Congo Senegal	Fiji Indonesia Kiribati Korea, Dem. Rep. Marshall Islands Micronesia Fed. Sts. N. Mariana Is. Papua New Guinea Philippines Solomon Islands Thailand Tonga Vanuatu Western Samoa	Maldives	Azerbaijan Bulgaria Croatia Czech Republic Kazakhstan Kyrgyz Republic Latvia Lithuania Macedonia FYR[a] Moldova Poland Romania Russian Federation Slovak Republic Turkmenistan Ukraine Uzbekistan Yugoslavia, Fed. Rep.	Turkey	Iran, Islamic Rep. Iraq Jordan Lebanon Syrian Arab Rep. West Bank and Gaza	Algeria Morocco Tunisia	Belize Bolivia Colombia Costa Rica Cuba Dominica Dominican Republic Ecuador El Salvador Grenada Guatemala Jamaica Panama Paraguay Peru St. Vincent and the Grenadines Suriname
	Upper	Mauritius Mayotte Reunion Seychelles South Africa	Gabon	American Samoa Guam Korea, Rep. Macao Malaysia New Caledonia		Belarus Estonia Hungary Slovenia	Gibraltar Greece Isle of Man Malta Portugal	Bahrain Oman Saudi Arabia	Libya	Antigua and Barbuda Argentina Aruba Barbados Brazil Chile French Guiana Guadeloupe Martinique Mexico Netherlands Antilles Puerto Rico St. Kitts and Nevis St. Lucia Trinidad and Tobago Uruguay Venezuela
Subtotal:	170	27	23	26	8	27	6	10	5	38

Table 1 *(continued)*

Income group	Subgroup	Sub-Saharan Africa: East and Southern Africa	Sub-Saharan Africa: West Africa	Asia: East Asia and Pacific	Asia: South Asia	Europe and Central Asia: Eastern Europe and Central Asia	Europe and Central Asia: Rest of Europe	Middle East and North Africa: Middle East	Middle East and North Africa: North Africa	Americas
High-income	*OECD Countries*			Australia Japan New Zealand			Austria Belgium Denmark Finland France Germany Iceland Ireland Italy Luxembourg Netherlands Norway Spain Sweden Switzerland United Kingdom			Canada United States
	NonOECD Countries			Brunei French Polynesia Hong Kong Singapore OAE[b]			Andorra Channel Islands Cyprus Faeroe Islands Greenland San Marino	Israel Kuwait Qatar United Arab Emirates		Bahamas, The Bermuda Cayman Islands Virgin Islands (US)
Total:	*210*	27	23	34	8	27	28	14	5	44

a. Former Yugoslav Republic of Macedonia.
b. Other Asian economies—Taiwan, China.

For operational and analytical purposes the World Bank's main criterion for classifying economies is gross national product (GNP) per capita. Every economy is classified as low-income, middle-income (subdivided into lower-middle and upper-middle), or high-income. Other analytical groups, based on geographic regions, exports, and levels of external debt, are also used.

Low-income and middle-income economies are sometimes referred to as developing economies. The use of the term is convenient; it is not intended to imply that all economies in the group are experiencing similar development or that other economies have reached a preferred or final stage of development. Classification by income does not necessarily reflect development status.

Definitions of groups

These tables classify all World Bank member economies, and all other economies with populations of more than 30,000.

Income group: Economies are divided according to 1993 GNP per capita, calculated using the *World Bank Atlas* method. The groups are: low-income, $695 or less; lower-middle-income, $696–$2,785; upper-middle-income, $2,786–$8,625; and high-income, $8,626 or more.

The estimates for the republics of the former Soviet Union are preliminary and their classification will be kept under review.

Table 2 Classification of economies by major export category and indebtedness, 1995

	Low- and middle-income							*High-income*	
	Low-income			*Middle-income*					
Group	*Severely indebted*	*Moderately indebted*	*Less indebted*	*Severely indebted*	*Moderately indebted*	*Less indebted*	*Not classified by indebtedness*	*OECD*	*nonOECD*
Exporters of manufactures			Armenia China Georgia	Bulgaria Poland	Hungary Russian Federation	Belarus Estonia Korea, Rep. Korea, Dem. Rep. Kyrgyz Republic Latvia Lebanon Lithuania Macao Moldova Romania Ukraine Uzbekistan		Canada Finland Germany Ireland Italy Japan Sweden Switzerland	Hong Kong Israel Singapore OAE[a]
Exporters of nonfuel primary products	Afghanistan Burundi Côte d'Ivoire Equatorial Guinea Ethiopia Ghana Guinea Guinea-Bissau Guyana Honduras Liberia Madagascar Mali Mauritania Myanmar Nicaragua Niger Rwanda São Tomé and Principe Somalia Sudan Tanzania Uganda Viet Nam Zaire Zambia	Albania Chad Malawi Togo Zimbabwe	Mongolia	Argentina Bolivia Cuba Peru	Chile Papua New Guinea	Botswana Guatemala Namibia Paraguay Solomon Islands St. Vincent and the Grenadines Suriname Swaziland	American Samoa French Guiana Guadeloupe Reunion	Iceland New Zealand	Faeroe Islands Greenland
Exporters of fuels (mainly oil)	Nigeria			Angola Congo Iraq	Algeria Gabon Venezuela	Bahrain Iran, Islamic Rep. Libya Oman Saudi Arabia Trinidad and Tobago Turkmenistan			Brunei Qatar United Arab Emirates
Exporters of services	Yemen, Rep.	Benin Egypt, Arab Rep. Gambia, The Nepal	Bhutan Burkina Faso Cambodia Haiti Lesotho	Jamaica Jordan Panama	Antigua and Barbuda Dominican Republic Greece Western Samoa	Barbados Belize Cape Verde Djibouti El Salvador Fiji Grenada Kiribati Maldives Malta Seychelles St. Kitts and Nevis St. Lucia Tonga Vanuatu	Aruba Cayman Islands Martinique	United Kingdom	Bahamas, The Bermuda Cyprus French Polynesia Kuwait

Table 2 *(continued)*

	Low- and middle-income							High-income	
	Low-income			Middle-income					
Group	*Severely indebted*	*Moderately indebted*	*Less indebted*	*Severely indebted*	*Moderately indebted*	*Less indebted*	*Not classified by indebtedness*	*OECD*	*nonOECD*
Diversified exporters[b]	Central African Rep. Kenya Lao PDR Mozambique Sierra Leone	Bangladesh Comoros India Pakistan	Sri Lanka Tajikistan	Brazil Cameroon Ecuador Morocco Syrian Arab Rep. Uruguay	Colombia Costa Rica Indonesia Mexico Philippines Senegal Tunisia Turkey	Azerbaijan Dominica Kazakhstan Malaysia Mauritius Netherlands Antilles Portugal South Africa Thailand Yugoslavia, Fed. Rep.		Australia Austria Belgium Denmark France Luxembourg Netherlands Norway Spain United States	
Not classified by export category					Gibraltar	Croatia Czech Republic Macedonia FYR[c] New Caledonia Slovak Republic Slovenia	Bosnia and Herzegovina Eritrea Guam Isle of Man Marshall Islands Mayotte Micronesia Fed. Sts. Northern Mariana Islands Puerto Rico West Bank and Gaza		Andorra Channel Islands San Marino Virgin Islands (US)
Number of economies 210	33	13	11	18	20	59	17	21	18

a. Other Asian economies—Taiwan, China.
b. Economies in which no single export category accounts for more than 50 percent of total exports.
c. Former Yugoslav Republic of Macedonia.

Definitions of groups

These tables classify all World Bank member economies, plus all other economies with populations of more than 30,000.

Major export category: Major exports are those that account for 50 percent or more of total exports of goods and services from one category, in the period 1988–92. The categories are: nonfuel primary (SITC 0,1,2, 4, plus 68), fuels (SITC 3), manufactures (SITC 5 to 9, less 68), and services (factor and nonfactor service receipts plus workers' remittances). If no single category accounts for 50 percent or more of total exports, the economy is classified as *diversified.*

Indebtedness: Standard World Bank definitions of severe and moderate indebtedness, averaged over three years (1991–93) are used to classify economies in this table. *Severely indebted* means either of the two key ratios is above critical levels: present value of debt service to GNP (80 percent) and present value of debt service to exports (220 percent). *Moderately indebted* means either of the two key ratios exceeds 60 percent of, but does not reach, the critical levels. For economies that do not report detailed debt statistics to the World Bank Debtor Reporting System, present-value calculation is not possible. Instead the following methodology is used to classify the non-DRS economies. *Severely indebted* means three of four key ratios (averaged over 1991–93) are above critical levels: debt to GNP (50 percent); debt to exports (275 percent), debt service to exports (30 percent); and interest to exports (20 percent). *Moderately indebted* means three of four key ratios exceed 60 percent of, but do not reach, the critical levels. All other classified low- and middle-income economies are listed as *less-indebted.*

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