Adjustment in Africa: Update on Reversing Economic Decline in Sub-Saharan Africa

Many African countries initiated reform programs in the mid-1980s to restore macroeconomic balance and reverse their economic decline. The recent World Bank study *Adjustment in Africa: Reforms, Results, and the Road Ahead* (World Bank, 1994) assesses the extent of policy reform and its economic payoffs in 29 countries in Sub-Saharan Africa. It found that many countries had undertaken substantial macroeconomic and other policy changes which helped to restore growth. But even with the policy changes, policies in these countries were still far from what is considered to be conducive to sustainable economic growth.

This note summarizes the findings of the Policy Research Working Paper No. 1394, *Macroeconomic Reform and Growth in Africa: Adjustment in Africa Revisited*, updating the assessment of macroeconomic policy change which incorporates recently available macroeconomic and national accounts data. The update also draws on the results of the analysis to modify the weights assigned to the components of the indexes of policy change and stance. The conclusions of the earlier report still hold: improved policies are still associated with better performance, but the countries fall short of having sound policies. In fact, there was an overall deterioration in the 1991-1992 policy stance compared with the 1990-1991 stance, indicating the fragile, slow and often reversal-prone nature of macroeconomic reform in Africa. Only with the data for 1994, reflecting the devaluation of the CFA franc, is the index likely to show a large improvement in the policy stance.

http://www.worldbank.org/afr/findings/english/find34.htm
11/2/2001
A key component of economic reform programs is the elimination of major macroeconomic distortions. By the mid-1980s, overvalued exchange rates, large fiscal deficits, and high inflation had taken their toll on growth. Some countries made major changes in their policy regimes, while other countries found themselves unable to make the changes needed to improve their policy stance. There is a strong relation between changing policies and changes in Gross Domestic Product (GDP) growth rates. Improving policies pays off in an increase in GDP growth rates. Countries that entered the second half of the 1980s with very low rates of growth often had underutilized capacity that allowed them to realize a larger spurt in growth than countries that had performed somewhat better.

Despite the improvement that many countries made in their macroeconomic policies, virtually no country has achieved a fully satisfactory or sustainable macroeconomic policy stance. Real exchange rates remain overvalued, fiscal deficits high, often leading to inflationary financing or the accumulation of arrears, and inflation is still a problem in many countries. Table 1 classifies countries according to their policy stance, on the basis of revised and recently available data. The overall index is the sum of the exchange rate, fiscal and monetary policy stance indexes, weighted by their relative contribution to the change in GDP growth rates. The weights are derived by relating the changes in exchange rate, fiscal and monetary policies to the change in the per capita GDP growth rate through regression analysis. In rough terms, the exchange rate policy stance is given a weight of one-half, fiscal policy a weight of one-third, and monetary policy a weight of one-sixth.

As Table 1 shows, 2 countries (Mozambique and Tanzania) move up to the fair category. Four countries (Burundi, Kenya, Madagascar, and Malawi) drop from the fair to the poor or very poor category, while 3 countries (Nigeria, Rwanda, and Zimbabwe) drop from the poor to the very poor category. Clearly, the severe drought in 1992 is partly responsible for the decline, as the precipitous fall in GDP in some of the Southern African countries caused their fiscal deficits as a percent of GDP to increase substantially. Nonetheless, the majority of countries are classified as of 1991-92 as having poor or very policies, and only one as having good or adequate policies. Evidently, there is still room for substantial improvement in macroeconomic policies. Improving macroeconomic policies is only part of the larger development effort of building institutions, creating infrastructure, and putting in place the social policies needed for broad-based growth and poverty alleviation. But experience elsewhere has shown that satisfactory and stable macroeconomic policies are a necessary ingredient in the recipe for achieving the high rates of sustained growth needed for rapid poverty alleviation.

### Adjustment in Africa Data on Diskette

The main economic and financial datasets used in the quantitative analysis for Adjustment in Africa: Reforms, Results and the Road Ahead are now available on diskette. For convenient distribution and use, the data have been stored in a compressed format on a high-density floppy disk with built-in software, the Socioeconomic Timeseries Access and Retrieval System (*STARS*). *STARS* decompresses the files and allows the user to select, view, and export data for use in other computer programs such as Dbase, Lotus 1-2-3, Javeline Plus, Aremos, or ASCII format. The disk also includes the text of the summary of Adjustment in Africa in a DOS-readable format. Tables for the construction of the Change in Macroeconomic Policy Indicator and Policy Stance Indicator are included in Excel-readable format.

Because of data revisions and new input, the data do not correspond directly to those used in the Policy Research Report, Adjustment in Africa: Reforms, Results and the Road Ahead, but to the updated material in a Policy Research Working Paper No. 1394, Macroeconomic Adjustment and Growth in Africa: Adjustment in Africa Revisited.
This note was prepared by Christine W. Jones, Macroeconomics and Growth Division, Policy Research Department, The World Bank. The Working Paper and diskette can be obtained from the Policy Research Department (Rebecca Martin, Room N 1-059, The World Bank, 1818 H Street NW, Washington, D.C. 20433). Bank staff can also access this data and other STARS products online through the Banyan network (office technology coordinators will provide assistance). The data diskette and the Policy Research Report are available from the World Bank Bookstore at 701 18th Street, NW Washington DC, or can be ordered by telephone (202)4731155. To order the diskette, ask for Adjustment in Africa Database Stars 3.0 (ISBN 0-821330314). The Policy Research Report costs $19.95 and the diskette costs $14.95.